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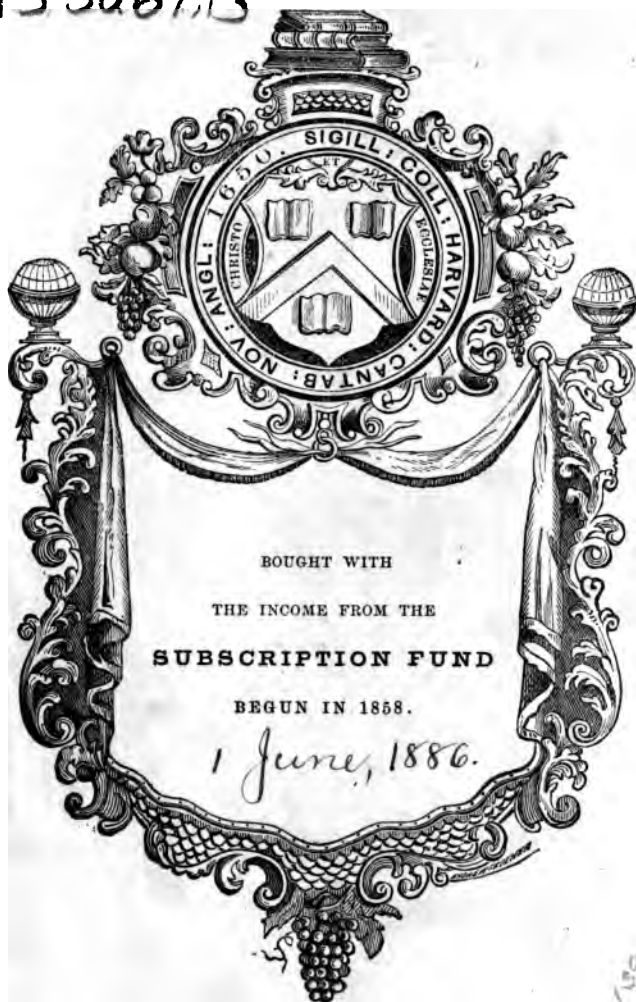
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THE HISTORY
OF
The Surplus Revenue of 1837

BEING

AN ACCOUNT OF ITS ORIGIN, ITS DISTRIBUTION AMONG THE
STATES, AND THE USES TO WHICH IT
WAS APPLIED

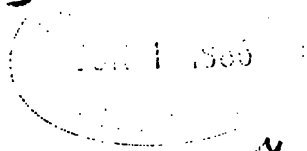
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TO
MY FATHER AND MOTHER

PREFACE.

IN the following pages I have endeavored to present a complete and impartial history of the origin and growth of the Surplus Revenue of 1837, and more especially of its disposition by the States among which it was divided.

The work may seem to the general reader more like a collection of facts than the story of an important incident in our history. Of this defect, if it be a defect, I am as well aware as one can be; but if I am not mistaken this is the natural function of first works in a new field. Some one must clear the ground, loosen the soil, and raise a plain but useful crop before the finer growths can flourish.

Until after most of my material had been collected I supposed I was an absolute pioneer in making a thorough investigation of the history of the surplus in the States. I was then informed that Mr. Eaton, U. S. Commissioner of Education, had touched upon the subject in an address delivered in 1877. Some ten pages of this address were devoted to the appropriations for education which thirteen of the States had made from portions of the surplus that had been deposited with them.

Mr. Eaton, however, studied the matter only in its relation to the question of national aid to education, and so took note of only such appropriations of the money as were made for schools; he merely looked in upon the field rather than explored it.

Some prefatory remarks upon the method and scope of the investigation are prefixed to the Bibliographical Index.

I wish to acknowledge my obligations to the correspondents who have kindly helped me in gathering the facts. To Prof. Sumner I am under especial obligations for directing my attention to this subject, and for encouragement since the work was undertaken.

Corrections of errors or any additional information will be gratefully received.

E. G. B.

NEW HAVEN, *May*, 1885.

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THE HISTORY OF THE SURPLUS REVENUE OF 1837

CHAPTER I.

THE SURPLUS QUESTION—EARLY PROPOSALS OF DISTRIBUTION.

THE Secretary of the Treasury, in his annual report, dated December 3, 1883, announced that according to present estimates all bonds payable at the pleasure of the Government would be redeemed before June 30, 1887. The debt then remaining will consist chiefly of "four and a half per cents.," redeemable September 1, 1891, and "four per cents.," redeemable July 1, 1907. Before these dates these bonds can be redeemed only by paying a large and growing premium.

Within less than three years, then, supposing no serious diminution of the national revenue to be effected by legislation or treaty, the country will be brought face to face with a very urgent financial question. For either some sudden and radical reduction of taxation must take place, or the debt must be bought at a great disadvantage, or a surplus of upward of \$85,000,000 a year must be disposed of.

This prospect of a great surplus has aroused some discussion, but it has hardly received the attention that it deserves. Some attempts, also, have been made to reduce the revenue, but as yet they have been unavailing.

Roughly speaking, three ways are proposed to meet this surplus question; two by the protectionists, and one by the revenue reformers, or free-traders, as they are commonly called.

The revenue reformers demand a reduction of taxation sufficient to forestall any troublesome surplus. They do not consent to the abolition of the excise taxes on spirits, fermented liquors,

and tobacco, because these taxes collect a large revenue without increasing the cost of the necessities of life.

On the other hand, a large number of the uncompromising protectionists demand the immediate repeal of our internal revenue laws as the surest and safest way to lessen the national income.

These two propositions strike at the root of the evil by reducing taxation. The other division of the protectionists, however, take the bull by the horns, and, instead of regarding a surplus as dangerous and likely to be a nuisance, they look upon it as an un-mixed blessing.

This party is led by men belonging to the National or Pennsylvania school of political economy. They agree with the revenue reformers in considering the excise too useful a tax to be dispensed with ; but, on the other hand, they hold that, apart from questions of revenue, a high protective tariff is a good thing in itself. With these views, they are strictly logical when they declare that the surplus should be used rather than that steps should be taken to prevent its accumulation. If their premises in regard to protection and the excise are sound, their position is impregnable ; for it would be folly to give up a great good like protection to avoid the little trouble of rightly using a possible surplus.

This party accordingly propose, as a solution of the problem, the distribution of the surplus among the States.¹ To disarm

¹ See Thompson and "The Surplus Question." The following bills were introduced during the first session of the Forty-eighth Congress (1884) :

January 8th, Mr. Goff, of West Virginia, (by request,) introduced a bill to appropriate a portion of the surplus revenue of the United States among the several States and Territories (H. R., 2886 ; 15 Cong. Record, 294).

January 29th, Mr. Evans, of Pennsylvania, (by request,) introduced a bill (H. R., 4268) to provide for the general welfare by the advancement of education and the extinction of the public debt in the several States of the United States through the utilization of the surplus revenue (15 Cong. Rec., 737). This is, I suppose, what was known through the press as the "Wharton Barker scheme" of distribution, and Prof. Thompson's pamphlet was written to expound and defend it. To meet any constitutional objections it is so worded as to find refuge under the broad shelter of the "general welfare clause."

May 12th, Mr. Barbour, of Virginia, introduced a joint resolution to complete

prejudice, they affirm that it is no new thing; that the idea was favorably entertained by the great men of the past; and that, in fact, it has been tried once, in 1837, under some disadvantages, but even then with encouraging results.

To enable people to judge whether the so-called distribution of 1837 is a precedent for what has been lately proposed, and to set forth for the first time a full account of a once exciting, but now almost forgotten, incident in our financial history, is the aim of this work.

So far as the writer knows, Thomas Jefferson was the first to propose a distribution of surplus revenue. Such a proposition he advanced in his second inaugural address, delivered March 4, 1805, while speaking of the import duties. "These contributions," said he, "enable us to support the current expenses of the Government, to fulfil contracts with foreign nations, to extinguish the native right of soil within our limits, to extend those limits, and to apply such a surplus to our public debts as places at a short day their final redemption, and that redemption once effected, the revenue thereby liberated may, by a just repartition among the States, and a corresponding amendment of the Constitution, be applied, *in time of peace*, to rivers, canals, roads, arts, manufacturers, education, and other great objects within each State."¹

The excess of revenue which Jefferson expected appeared in Gallatin's report of December, 1805, where it was shown that "the surplus in the Treasury, after meeting all the regular expenditures and Navy deficiencies, French claims, and the \$1,750,000 of the Louisiana purchase, for which a loan had been authorized, would still exceed one million dollars on a reasonable estimate." The debt would be paid within four years. The next year there was a surplus of \$4,000,000 in the Treasury, and "only

the deposits of the fourth instalment of the surplus revenue of the United States with such of the States as were entitled thereto under the act of June 23, 1836 (H. R., 249; 15 Cong. Rec., 4078).

No one of these bills has yet been discussed, so far as I know.

¹ 8 Jefferson's Works, 41.

three years remained before the day when some disposition must be made of the excess of revenue."¹

With this problem in view, Jefferson, instead of suggesting a gradual reduction in the revenue, said: "Shall we suppress the impost, and give that advantage to foreign over domestic manufactures? On a few articles of more general and necessary use the suppression in due season will doubtless be right, but the great mass of the articles on which impost is paid are foreign luxuries, purchased by those only who are rich enough to afford themselves the use of them. Their patriotism would certainly prefer its continuance and application to the great purposes of the public education, roads, rivers, canals, and such other objects of public improvement as it may be thought proper to add to the constitutional enumeration of federal powers."²

It will strike the reader perhaps that Jefferson's ideas have been carried out practically by the great log-rolling appropriation bills of later times. This is true in a sense, but Jefferson's propositions nevertheless deserve mention in an account of the attempts at distribution.

Jefferson and Gallatin had large plans for a National University, but they were not destined to be realized. To be sure, there was a surplus of over five million dollars in 1807, but it rapidly disappeared as Jefferson's great gun-boat scheme was carried into effect. What was left after this waste³ was soon absorbed in general expenditures, since the embargo, another favorite measure, well-nigh destroyed the commerce which filled up the Treasury.

¹ Adams' "Gallatin," 348-9.

² It is but justice to Jefferson to remember that the tariff was lower then than it has ever been since. The ratio of that tariff to ours is roughly that of fifteen to forty. The similarity between the views of Jefferson and the ideas of modern protectionists who favor distribution is one of principle. Those, however, who are familiar with Jefferson's views, may well doubt whether he would have advocated such a measure under the conditions now prevailing. He kept his constitutional objections to distribution and to national appropriation for improvements, etc., till the end of his days. As late as 1825 he repeated in his letters his conviction that a constitutional amendment was necessary to provide for such cases.—73 Niles, 264.

³ Adams' "Gallatin," 352.

Jefferson still expected in 1808 a surplus soon after freedom of commerce should be restored, but freedom of commerce was not restored, the Embargo Act was followed by the Non-Intercourse Act, and in 1809 Gallatin announced a deficit.¹ The trouble increased rather than lessened, and war soon followed.

It is in 1816 and 1817 that we next hear of excessive revenues. The large importations which succeeded the long period of restriction produced "a casual surplus of five or six millions." It was unexpected and was quickly and extravagantly spent; but it was before the eyes of Congress long enough to arouse expectations of more, so that twenty millions were disposed of "upon the strength of these six millions."²

A season of distress soon followed, during which the Government had to borrow.

At this time, too, the distribution theory appears again in a modified form. After the charter of the Second United States Bank, a bill was brought forward providing that the dividends on the seven millions of stock in the bank, owned by the General Government, as well as the bonus which the bank paid for its charter, "should be expended in each State respectively in proportion to the number of its inhabitants"; and secondly, that "the money should be applied in constructing such roads, canals, and so forth, in the several States, as Congress might direct with the assent of the State."³ This measure, commonly known as the "Bonus Bill," was vetoed by Madison on constitutional grounds.⁴

During the following ten years there was an annual "surplus of revenues over all expenditures of from two to six millions of dollars."⁵ But this excess was steadily applied to the payment of

¹ *Ibid.*, 412.

² In 1827 Mr. Dickerson, of New Jersey, said that this surplus "produced an effect upon the body politic something like that produced in the human system by the pressure of blood upon the brain,—it produced a political vertigo, the effects of which may still be seen and felt."—3 Gales and Seaton, 214.

³ 4 Webster's Works, 514.

⁴ 12 Niles, 36 and 67.

⁵ Knox, 167. Mr. Knox's interesting and valuable study of the distribution of the surplus was not published till after this work was written, but I have availed myself, where it was possible, of some of his facts. His chapter treats one or two points at much greater length than I have done.

the public debt. By 1827, however, the country had become so prosperous that visions of surplus revenues exceeding the charges of the debt began to appear. As regards revenue the country was then in much the same state as in 1805-6, or as at the present day. The income exceeded the regular expenditures to a degree that allowed large annual payments of the principal of the national debt. In 1827 the total extinction of the debt was sure within a dozen years; now all the debt, which can be redeemed with advantage, will be paid within three years, that is, by June, 1887.

In view of the similarity of the two periods, it is interesting to note that in both cases long before the crisis the danger to the tariff was foreseen, and very similar schemes were devised to save it.

On the 13th of December, 1826, Mahlon Dickerson, a Democratic Senator from New Jersey, introduced a bill prescribing that \$5,000,000 a year, taken from the Sinking Fund, should be distributed for four years among the States in the ratio of direct taxation, beginning January 1, 1828, and ending January 1, 1831. He prescribed no especial use to which this money should be applied, but the object was to aid internal improvements and education. If the plan worked well, it was to be made permanent; after the payment of the debt, the amount for yearly distribution would be \$15,000,000.¹

Mr. Dickerson tried to bring his bill up again January 30th, and he succeeded in so doing February 1st, when he supported it in a long speech.

He advocated distribution because the debt would shortly be paid at the existing rate, when either the country would enter upon a career of extravagance, or duties would be most suddenly and disastrously reduced. Furthermore, distribution removed the temptation for the National Government to spend its funds on internal improvements, which action was both contrary to the genius of our Government, and creative of bad patronage and corruption. He also advocated an excise tax on domestic spirits;

¹ 31 Niles, 260. See also Thompson, "Relief of Local and State Taxation," p. 12.

for the States, being forbidden to lay imposts, and not daring to lay excises for fear of driving away industries, were forced back upon direct taxation, an odious method by which it was difficult to get revenue enough for education and internal improvement.¹

The bill was laid upon the table, on motion of Mr. Benton.² Though the measure was brought up again December 17, 1827, and ordered for a second reading, nothing further came of it. In reference to this proposition, Calhoun stoutly and rightly maintained that the chief object in view was to protect, strengthen, and perpetuate the protective system.³ The plan, notwithstanding the two defeats, was still cherished. In the following March, Mr. Johnston, of Louisiana, in the course of some remarks on a resolution of Senator Benton's, in reference to the public debt, affirmed that if there should be a surplus, he was in favor of internal improvements on a large scale. If this should not meet the favor of the people, he greatly preferred the distribution of the surplus among the States to the abolition of duties. "If the distribution," said he, "was for no other purpose than to levy a fund for the support of the State governments, it would be infinitely preferable to the abolition of duties."⁴

The next proposal to distribute the surplus came from a man who afterwards repented having made it. Jackson, in his first message, December, 1829, discussed the prospects of a surplus revenue, which he expected would soon exist,⁵ as no satisfactory

¹ 3 Gales and Seaton, 210. It will be seen, by comparing Prof. Thompson's discussion of this plan (*Relief, etc.*, p. 12) with his own plan, that the Democrats of 1827 occupied the same position in several respects now held by the Penn. Republicans. The proposition to levy an excise on spirits, to increase the sum for distribution, recalls Mr. Blaine's proposition.

² 31 Niles, 268.

³ Calhoun's Works, 53 and 573.

⁴ 9 Benton's Abridgment, 537.

⁵ Secretary Ingham, in his Treasury report, at the same time estimated a surplus of income over expenditures of twelve million dollars yearly for the next five years. As the amount of debt which would be payable or fall due in this period was only \$48,522,869, there would be a surplus, after paying this indebtedness, of about twelve million dollars. This indebtedness was all paid January 1, 1833. During 1833 the debt had to be bought at market prices. Knox, 168 and 178.

adjustment of the tariff seemed possible. On account of the doubtful constitutionality of national improvements, he considered that "the most safe, just, and federal disposition which could be made of the surplus revenue would be its apportionment among the several States, according to the ratio of their representation ; and that should the measure not be found warranted by the Constitution, it would be expedient to propose to the States an amendment authorizing it."¹

A year later his mind had begun to waver ; after noting that unequal distribution of funds for internal improvements would cause irritation and log-rolling, he went on to say that he had previously recommended some plan of distribution of any surplus among the States in proportion to their representation, to be applied to internal improvements. Although this plan had met with favor in some quarters, objections had been brought up that the ratio of allotment was unfair ; that such a procedure would encourage oppressive taxation ; that the plan would bring about improvements of a local rather than of a general nature ; and, lastly, that the States would become discredibly and injuriously dependent upon the federal power.² The principal alterations proposed by the critics of Jackson's plan were two. Some proposed that the importations of a district should be the standard by which the share of any district should be calculated, while others proposed the relative area. It is perfectly apparent that the first proposition came from Eastern men who regarded the surplus as the product of duties, while the second is no less apparently the suggestion of Westerners who looked upon the surplus as made up of the proceeds of the sales of public lands. Each district proposed, too, a method by which it might get more. Jackson defended his plan as one of obvious equity, because of its being the ratio of contribution whether the funds were derived from the customs or from direct taxation. But the equity is not at all obvious. In the first place, the surplus was not raised by direct taxation ; and, secondly, the impost duties can not be said to bear upon a com-

¹ *I* Statesman's Manual, 705.

² *I* Statesman's Manual, 740-1.

munity in proportion to its representative population. Jackson himself acknowledged later the unfairness of the ratio. Furthermore, the results of raising a revenue by imposts, and of distributing it by any ratio based upon population, would be very different in different communities. Take South Carolina and Pennsylvania in old times, and suppose the surplus to have been raised by a high protective tax on commodities made in Pennsylvania. The surplus is then divided on a ratio of direct taxation or of population between the two States. But the agricultural State has paid a tax to the manufacturing community on the home-made goods it may have bought, which does not come into the calculation. The result is, roughly, Pennsylvania would get two bounties and pay one. Her people would pay part of the imposts and get part of the surplus and the excess of price on their commodities arising from protection. South Carolina, on the other hand, would get one bounty and pay two; for she would pay impost duties to the Government and a tax to the people of Pennsylvania, and she would receive her share of the surplus.

In a measure this inequality, would have been balanced, in those times, by the Southern States receiving an allowance, on the basis of direct taxation, upon two thirds of their slaves. If the surplus had been raised by direct taxation, its division among the *States* on the same ratio would be as nearly just as is possible, but the justice vanishes if the money is divided *per capita* or among the towns afterward. In short, there is no conceivable way of collecting taxes and distributing the proceeds according to the contribution. The minute such a method were discovered it would be no object for anybody but the tax-gatherer, an unpopular minority, to propose taxation.

Jackson henceforth recommended economy and reduction of the tariff, and his annoyance at having countenanced distribution grew, till he declared that his views had so changed that he could give no sanction whatever to any such scheme.¹

The seed, however, had been sown and was now springing up. The suggestion of Jackson, or of Senator Dickerson was reëchoed

¹ In Dec., 1836. See p. 20.

in 1831 by the Legislature of Pennsylvania, which passed almost unanimously a resolution in favor of distribution.¹

The first notable Congressional discussion of these projects came up in the spring of 1832, under the leadership of Henry Clay, who continued to advocate the distribution of land revenues for many years.

The design, at bottom, was to maintain a high protective tariff, but this was very difficult to accomplish in the face of a fast diminishing debt and rapidly increasing land revenues. Clay, therefore, devised a plan to distribute the land revenues, and thus by withdrawing them from the treasury to make a high tariff necessary. But who was to report such a bill? It came within the duties of the committee on public lands, of course, but nothing could be hoped from that body, as it was made up of Senators from the new States, who were not particularly interested in the welfare of the "American System," and were probably hostile to the scheme in question, for the new States desired the cession of the public lands to themselves. This difficulty, however, was cleverly met by getting a resolution passed, under the color of considering a revenue bill, that the Committee on Manufactures should report on the land question. This cunning device did not work, for though the Committee on Manufactures responded, as might have been expected,² with a report and a bill favoring distribution,³ it was all so clearly out of place that the Chairman of

¹ Prof. Thompson, "Relief," etc., 14.

² Four out of five of the committee "were known to be devoted advocates of the 'American System,'" while the Chairman was Mr. Dickerson, who had presented a distribution bill in 1827. Clay, too, was a leading member of the committee. (11 Benton's Abridgment, 431.)

³ The chief point of the report is in the following: "After deducting the ten per cent. proposed to be set apart for the new States, a portion of the committee would have preferred that the residue should be applied to the objects of internal improvement, and colonization of the free blacks, under the direction of the General Government. But a majority of the committee believes it better, as an alternative for the cession of the new States, and as being more likely to give general satisfaction, that the residue be divided among the twenty-four States, according to their federal representative population, to be applied to education, internal improvement, or colonization, or to the redemption of any existing debt

the Committee on Public Lands moved that the bill be referred to his own committee, which was immediately voted, though a majority of the Senate were in favor of the bill.¹

The Public Lands Committee reported against the measure. It, however, passed the Senate after much debating, but was killed in the House by a small majority.²

In the following winter Mr. Clay introduced his bill again; it passed the Senate the 28th of January by a vote of 24 to 20, and the House, with some amendments, March 1st, by 96 to 40, only to receive a pocket veto from the President. This he supplemented, however, with a special veto message at the opening of the following session.³

Questions of greater moment, such as the bank war, the removal of the deposits, and the relations with France, now arose to push distribution for a time into the background.

contracted for internal improvements, as each State, judging for itself, shall deem most conformable to its own interests and policy."

¹ 1 Benton, 275-76.

² 1 Benton, 279.

³ See 1 Benton, 362-9.

CHAPTER II.

THE GROWTH AND DISPOSITION OF THE SURPLUS.

IT was a favorite proposition with Mr. Calhoun, that the tariff of 1828 was the cause of the surplus, and the surplus of the removal of the deposits, whence followed the disasters in the currency, which befell the country in 1837.¹

The operation of a high tariff in making a surplus is clear enough, but there was a secondary influence after this which vastly increased the surplus in a way not so clear. The secondary influence was the new method of managing the public deposits. When the Second United States Bank was incorporated in 1816, its charter provided that the deposits of public money should be kept in it, or its branches, unless the Secretary of the Treasury should direct otherwise, in which case he was to report the reasons of his action to Congress as soon as possible.

Of this valuable privilege Jackson resolved to deprive the bank. This resolution was carried through with all his characteristic obstinacy and recklessness, and the execution of it, with the attendant circumstances, was one of the most exciting incidents in the history of American politics.

To this removal² of the deposits to certain chosen and favored banks in different parts of the country, may be traced the source of the enormous surplus which accumulated in 1836.

¹ 3 Calhoun's works, 428-9.

² There was no physical removal. Future receipts were to be deposited in the chosen banks, and the deposits in the United States Bank remained there till drawn out for ordinary government disbursements. (1 Benton, 373.) In a speech, April 27, 1836, Mr. Benton said: "No part of the revenues of 1833 was ever transferred to the deposit banks; all remained in the Bank of the United States until expended." (50 Niles, 205.) The removal is fully discussed by Prof. Sumner: "Life of Jackson," 297-321.

The proceeds from the sale of the public lands were the largest item in the Government income, after the customs. Credit on these sales was withdrawn between 1820 and 1832.¹

The annual income from this source averaged 2.3² million dollars in the ten years preceding the removal, *i. e.*, from 1824 to 1833. The excess of the receipts of 1833, under a credit system, over those of 1832 was 1.3 million dollars. In 1834 the increase was only .9 million dollars. The influence of the deposits had not begun to be felt, because they had not accumulated fast since the reduced tariff brought in 12.8 million dollars less revenue than was received the previous year. But in 1835 the effects of the new deposit system appeared; the debt had been paid, and "an immense amount of capital was being collected by taxes, and this was being distributed to favored corporations, as a free loan for an indefinite period, on which they could make profits by lending at interest."³ Furthermore, these favored corporations were encouraged by the administration to extend their accommodations so that people might not miss the help of the United States Bank, which narrowed the range of its operations on the removal of the deposits.

The extraordinary privileges which the "pet banks" enjoyed⁴ were eagerly sought for, and frequently granted as rewards for political services.⁵

¹ Wirth, 145.

² Five figures omitted.

³ Prof. Sumner's Jackson, 319.

⁴ For example: The pet Commercial Bank of Cincinnati did a discount business of nearly \$4,000,000. It had \$1,000,000 capital and \$2,500,000 *public money*. From auditor's report from *Cincinnati Gazette*, in *New York Spectator*, April 7, 1837.

⁵ See the letters in 52 Niles, 91-3. To take an example: The president of the Seventh Ward Bank, in New York, offered the services of the bank to the Secretary of the Treasury, October 2, 1833. The letter contained the following: "The directory feel much confidence in this application, being (without exception), as well as the stockholders, with few exceptions, friends of the administration." . . . "The directors, having the highest personal consideration for General Jackson, respectfully request the Secretary to lay this letter before the President." This offer was not accepted, whereupon, De-

There is no question that this tempting bait was used to strengthen the hold of the administration on the Government. New banks sprang up everywhere to partake of the good things. The banking capital of the country in 1820 was \$102,100,000; in 1830, \$110,000,000; in 1834, \$196,250,000; and in 1836, August, \$281,250,000.¹

The payment of the public debt left foreign capital seeking investment, and at the same time raised American credit to a high place; consequently much of the foreign capital was put into state stocks.² This made money cheap and plenty, besides inciting the States to contract debts for internal improvements. In the West particularly the banks which received deposits sought to loan them on easy terms, and so men found no trouble in borrowing. The new banks, at the same time, were putting out notes with great recklessness.³ These two influences worked together to excite a fever of speculation. The improvement scheme would raise land values; but the public lands sold for the fixed sum of \$1.25 per acre, no matter how high the market price of other land rose.

Consequently everybody who could borrow money bought public lands to sell again at the market value, or to hold for a further rise.⁴ In this way the deposits were borrowed, paid over

cember 16, 1833, the president, cashier, and twelve directors sent the following, signed with their names: "We, the subscribers, officers, and directors of the Seventh Ward Bank, in the city of New York, friends of the administration, and of the revered chief at the head of the Government, do solicit a portion of the fiscal patronage of the United States Treasury for the Seventh Ward Bank. The terms are those most favorable to the Government." This appeal was successful.

¹ 51 Niles, 162.

² *E. g.*: In 1842 the debt of Pennsylvania was \$34,454,356.47, of which \$23,738,206 was held abroad.—62 Niles, 332.

³ Abbot Lawrence, in March, 1837, estimated that since the veto of the bill to renew the charter of the U. S. Bank in 1832 there had been an increase of bank notes in circulation of \$80,000,000.—52 Niles, 89.

⁴ "A gentleman purchases land at \$1.25, or more, per acre, returns, represents it a first quality, and counts it worth from \$10 to \$15 or \$20. Multiplying the number of acres by this amount, he finds out his real wealth, and

to the land receiver for land, to be by him deposited in the banks ; then the operation was repeated again and again, the growing surplus consisting of bank credits mainly.¹

Under this deceptive process the land sales rose from an average of \$2,300,000 a year to \$14,757,600 in 1835, and in 1836 to the unparalleled amount of \$24,877,179 ! All this time speculation in other things besides lands, feeling the contagion, went on wildly, fancy stocks were put on the market, city lots rose enormously in value, and money was drawn out of slow-going enterprises. The rise of prices here increased importations of all kinds, even of provisions.²

the amount so produced stands good for credit equal to it; an endorser is easily found, for in these speculating times dependencies are mutual, and the bank looses its purse strings. The investment is made as soon as possible. The money thus obtained cannot be refunded. Land will not sell, and if sold, the depreciation in value prevents its realizing the estimate. In this way is the ruin of many, no doubt, involved, and the banks must meet with heavy losses."—*The Richmond Compiler in the New Haven Register*, May 13, 1837.

¹ "The facility of purchasing was not less than the quantity to be purchased (about 200,000,000 acres). The deposits of the Government in the State banks selected as its fiscal agents were upwards of forty millions of dollars [this estimate is a little too high probably, except toward the last. October 1, 1835, the deposits amounted to \$18,000,000, and October 1, 1836, to \$41,000,000], consisting almost exclusively of bank notes. From this vast source speculators and political partisans drew their funds, in the form of discount or loan, in exchange for which they gave their own promissory notes, and received the notes deposited by the Government, or what was the same, a credit in bank founded on them. These, in turn, were exchanged for public lands, when they passed into the hands of the receivers, and were by them returned to the banks as new deposits, to take the same rapid round again and again, and sweeping away from the people, by means of their own funds, a corresponding amount of their land, and swelling, in the same proportion, the amount brought to the credit of the Government by the banks, under the fallacious name of public money in the treasury, but which in reality was nothing more than the notes in bank given by speculators and partisans in exchange for the public lands."—Anonymous "Life of J. C. Calhoun," p. 56, Calhoun himself gave a rapid and vivid survey of this period, and of this process, in his speech of February 5, 1840, 3 Works, 428-9. See also Mackenzie's "Van Buren, 136 (note) ; Jackson's Message, Dec., 1836, 51 Niles, 235 ; Von Hock, 424-5, and 50 Niles, 351.

² "For a series of many years the value of the grain and flour imported did not exceed a few thousand dollars, while that exported was, on an average, quite

The revenue from customs was \$16,200,000 in 1834, \$19,400,000 in 1835, and \$23,400,000 in 1836, a higher figure than was reached again till 1844, after the tariff was raised. March 1, 1836, the surplus on deposit amounted to \$33,700,000,¹ and by June 1st it had risen to \$41,500,000.² The further inflation of this credit surplus³ was stayed by the specie circular which took effect August 15th, so that on the first of January, 1837, the actual surplus was \$41,468,859.97.⁴

From these considerations it appears that the verdict of a contemporary writer, that there would have been no surplus had there been no removal of the deposits, has very strong grounds of probability in its favor. It would perhaps be too much, though, to accept this statement without a little modification. To quote his own words: "*had the deposits not been removed there could have been no surplus revenue.*" It was the act of sending part of those deposits to the Western States which furnished the means for the first speculations in public lands. The public money was lent to persons to buy lands with, and the same identical money, being returned to the deposit banks by the receivers, was loaned over and over again, until the amount was upward of forty-four millions of dollars in three years, *being seven millions more* [really \$16,000,000 more] than the amount distributed amongst the States."⁵

To give another example of the extent of this speculative buy-

\$6,000,000. Sometimes it exceeded even \$14,000,000, and so late as 1833, '4, and '5, amounted to nearly \$5,000,000 annually. But in the year ending September 30, 1837, the exports of grain fell off nearly a million, while the imports were augmented in value to the unprecedented amount of more than four and a half millions." See Woodbury's Report, Dec. 5, 1837; 53 Niles, 242. Between January 1 and April 19, 1837, 851,000 bushels of wheat were imported.—52 Niles, 147.

¹ 50 Niles, 91.

² 50 Niles, 313.

³ The term "credit surplus," used above, is authorized specifically by the chairman of a legislative committee in South Carolina, organized to report on Independent Treasury. He referred to the late surplus as one "consisting of bank credits."—55 Niles, 310.

⁴ 51 Niles, 289.

⁵ "An Examiner" in the *National Gazette*, April 29, 1837.—1 Financial Register, 146. The fact that Raguet reprinted this series of articles is a testimony to their trustworthiness. See Appendix of this work.

ing : in Michigan the sales in 1836 exceeded \$5,000,000, but in 1838 they amounted to only \$154,284 ; in Mississippi, in 1835 and 1836, the receipts exceeded \$3,000,000 each year, but in 1838 they fell to \$96,636.¹ It is worth remarking that the ratio between the receipts in these two States is the same in both periods. It will be noted further on that when the distribution took place the deposits were not forthcoming from Michigan and Mississippi, because the banks could not collect their loans.

During 1835 and the first part of 1836 the opposition party looked with alarm at the growing surplus of many millions of dollars kept in administration banks, which had the use of the capital for nothing.

The opposition perceived that the system was exciting wild speculation, and that by it money was drawn from the great commercial centres and stored in remote banks to be loaned to the profit of those who had proved their loyalty to the administration and its "revered chief." The Whigs felt they had no hopes of gaining an election against such odds² ; what was to be done,

¹ Woodbury's Report, January, 1840.

² Mr. Ewing, of Ohio, said in a speech in the Senate, March 17, 1836 : " I could not but be struck, and forcibly, with the perfect control which the Executive has, if he see fit to exercise it, over all these banks, and with them, also, over the whole long list of directors, stockholders, and debtors. Of the thirty-five banks in which the public money is deposited, there are but eight which could not be crushed at once, if the public deposits should be at once withdrawn from them. There are twenty-seven of them that could not pay the amount of those deposits on demand, even if no other creditor should call on them. They are fettered, bound by a golden chain, the ring of which is in the hands of the Secretary of the Treasury. They could not, and they dare not move contrary to his bidding, if he see fit to direct them to any end or object."—50 Niles, 119.

In this session a committee, consisting of Calhoun, Webster, Benton, Bibb, Southard, and King, considered the surplus question. It assumed there would be a surplus of nine millions a year for the next eight years, and to dispose of this surplus they proposed an amendment of the Constitution authorizing the distribution of the yearly surplus on the basis of representation. This proposition was never brought to a vote. Benton, as the leader of the administration in the Senate, opposed it, as was natural, for it was a blow aimed at the increasing power of the administration coming from the support of the pet banks. For a fuller notice of this report see Knox, 175-6.

for something must be done right quickly? January 27, 1836, Mr. Ewing, for the Committee on Public Lands, reported in favor of distributing the proceeds of the land sales among the States, for a limited time, to be devoted to education, internal improvements, etc. There was too much revenue, and the best plan was to give it back to the people.¹

Clay brought forward a land bill which set apart ten per cent. of the net proceeds of the land sales for the ten new States, and provided for the distribution of the residue.² Calhoun, who was in opposition, presented a joint resolution for an amendment to the Constitution sanctioning distribution,³ and also a bill to regulate the public deposits. A distribution bill was introduced. Mr. Benton favored spending the money on fortifications; for the administration did not relish the effects of the surplus and the responsibilities it entailed. Silas Wright thought it would be a good plan to buy State stocks with the surplus. Mr. Grundy introduced a bill⁴ to use it to secure for the Government the freedom of the railroads—*i. e.*, free transportation of mails, munitions of war, etc., forever. Nobody of importance suggested a reduction of the tariff, because the compromise bill, which was working slowly, was regarded as the settlement of that question for some years to come, and it must not be interfered with. In fact, many looked upon it as a sort of temporary appendix to the Constitution, and consequently sacred. Furthermore, most of the opposition were protectionists. But perhaps the chief reason was that it was the vicious deposit system and not the tariff which was working the mischief.

The land bill after passing the Senate, May 4th, by a vote of 25 to 20, was laid upon the table by the House, 104 to 85, June 22d. Through Webster's⁵ influence the Senate committee added a clause to the deposit bill providing for the division among the States, according to population, of the excess of the revenue above some amount thereafter to be reserved.

¹ 50 Niles, 1 and 12. The surplus at this date exceeded thirty millions.

² March 25th, the lower house of the General Assembly of New York passed a resolution in favor of the distribution of the land revenue.—50 Niles, 118.

³ See note 2 on p. 17.

⁴ 50 Niles, 83.

⁵ 50 Niles, 235.

The bill was thus amended and passed the Senate, June 17th. On the 20th it was considered in the House, and an attempt was made to break it up into two bills ; one for the regulation of the deposits, and one for the distribution of the surplus, but without avail. It was then made the order of the day until it should be disposed of. After many hours of debate on the 21st the distribution clause was stricken out, and, on the motion of Mr. Anthony, of Pa., a clause inserted in its place, making the States merely the depositaries of the surplus, which should be subject to the demands of the Treasury ; and changing the ratio of division from the ratio of population to the ratio of representation in Congress. In this shape the bill passed, 155 to 38. The Senate immediately accepted the amendments, and the President signed the bill on the 23d of June.¹

¹ Two days later Webster wrote : " The deposit and distribution bill has become a law, and money is already getting to be much easier, as the phrase is."—
2 Webster's Correspondence, 21.

The following is the text of the 13th section of the Deposit Bill : "*And be it further enacted*, That the money which shall be in the Treasury of the United States on the first day of January, 1837, reserving the sum of five millions of dollars, shall be deposited with the several States, in proportion to their respective representation in the Senate and House of Representatives of the Congress of the United States ; and the Secretary of the Treasury shall deliver the same to such persons as the several States may authorize to receive it, on receiving certificates of deposit, signed by the competent authorities of each State, each for such amount and in such form as the Secretary of the Treasury may prescribe, which shall set forth and express the obligation of the State to pay the amount thereof to the United States, or their assigns ; and which said certificates it shall be competent for the Secretary of the Treasury, in the name and behalf of the United States, to sell and assign, whenever it shall be necessary, for want of other money in the Treasury, to meet appropriations made by Congress, all sales and assignments, however, to be ratable, and in just and equal proportions, among all the States, according to the amounts received by them respectively ; and all such certificates of deposit shall be subject to, and bear an interest of five per centum per annum, payable half-yearly, from the time of such sale and assignment, and shall be redeemable at the pleasure of the States issuing the same."

The 14th section prescribed that the deposits were to be made in four instalments, one quarter January 1st, April 1st, July 1st, and October 1st respectively.—50 Niles, 291.

There is no doubt that Jackson would have vetoed a distribution bill. The *Globe* said so,¹ and his criticisms of the act showed that he was dissatisfied with it as it stood.

Indeed, his mind had undergone a thorough change on the subject. He declared in his message of Dec., 1836, that his first two messages had been misunderstood ; he had wanted to discourage loose construction and big appropriations for internal improvements, at a time when duties could not be reduced without extensive mischief, while great evils attended keeping the surplus in the Treasury. He had suggested an amendment to the Constitution to authorize distribution as an alternative for what were deemed greater evils, as a temporary resort to relieve an overburdened Treasury, till without commercial disturbance the Government could return to raising revenue just sufficient for its support.

Even this had not been proposed as advisable without a constitutional amendment. He now considered distribution of surpluses as prohibited by the Constitution ; his opinion had changed till he did not approve of an amendment at all. The whole thing was bad, worse than any transient mischief coming from lowering duties.²

¹ 50 Niles, 281.

² 51 Niles, 234. In the message he argues very fully and strongly against distribution and against the deposit bill.

CHAPTER III.

THE DIFFERENT OPINIONS OF THE MEASURE.

THERE can be no question legally that this act of June 23d was to be interpreted as merely a temporary deposit of the surplus with the States ; such is the wording of the act and such has been the decision of the Supreme Court,¹ yet the distributionists then and afterward regarded it as a substantial victory, and their opinion has so far prevailed that ordinarily the surplus is far more often said to have been distributed than deposited in 1837. Many States, indeed, continued for several years to count the deposit among their liabilities, though oftentimes with the remark that it probably would never be called for. Mr. Clay told his fellow-citizens, on his return to Kentucky, that he "did not believe a single member of either house imagined that a dollar would be recalled."² In 1841 he reiterated this belief more emphatically.³ On the other hand, Calhoun (1841) affirmed : "I regarded it then (1836), and still do, as simply a deposit—a deposit, to say the least, as constitutional as that in State banks or State stocks held by speculators and stock jobbers on both sides of the Atlantic, and far more just and appropriate than either. But while I regard it as a

¹ See p. 43.

² 51 Niles, 14.

³ "The Senator from New York has adverted, for another purpose, to the twenty-eight millions of surplus divided a few years ago among the States. Was not that, in effect, distribution? Was it not so understood at the time? Was it not voted for by Senators as practical distribution? The Senator from North Carolina (Mr. Mangum) has stated that he did. I did. Other Senators did; and no one, not the boldest, will have the temerity to rise here and propose to require or compel the States to refund that money. If in form it was a deposit with the States, in fact, and in truth, it was distribution. So it was then regarded. So it will ever remain."—Speech of January 28, 1841; 6 Clay's Works, 248.

deposit, I did then, and now do, believe that it should never be withdrawn but in the event of war, when it would be found a valuable resource."¹ Others asserted that the bill provided for a deposit, rather than for a distribution, only to avoid a presidential veto.²

On the question whether it was constitutional to distribute the surplus revenue or to raise revenue for distribution, the Whig position was that the existing surplus was not raised by taxation and was not properly revenue, but the property of the people, which should be given to them. If the Government needed the money it might use it; otherwise the money should be paid to its rightful owners, the people.³

These ideas are illustrated by the attitude of the party newspapers.

The opposition press rejoiced at their victory, as they deemed it, prophesied that the money would never be recalled because it was the "people's money,"⁴ or because the States⁵ would not give it up. They pronounced any man who, for party reasons, could vote against a bill which brought so much money into the

¹ Speech of Jan. 23, 1841; 3 Calhoun's Works, 581.

² It cannot be denied that when the distribution was made, it was well understood by Congress that the form of a deposit was adopted only to save the bill from the veto of the Federal Executive. Nor is it less apparent that the several Legislatures, in disposing of the funds deposited, by no means contemplated a contingency in which they should be repaid to the General Government."—Gov. Seward's Message, Jan., 1841.

He asked if the people of New York were going to withdraw from educational purposes four million dollars, to pay into a treasury which, if well managed, overflowed with the tribute of their own commerce.—2 Seward's Works, 267; 4 Hazard, 36.

³ *Hartford Courant*, in *New Haven Herald*, March 13, 1837.

⁴ "It is the people's money, and the Government will never ask for it."—*New Haven Palladium*, Dec. 3, 1836.

⁵ "We abjure, however, the idea that the National Government ever will, or can, effectually call for its return—a fact which is so palpable in itself that a motion has already been made in Congress to divest the question of any kind of doubt. (See page 29.) The idea is ridiculous that it can ever be returned in a mass."

If all the States were called upon, they would not all act, an inequality without remedy.—*New Haven Herald*, Dec. 15, 1836.

State, politically controlled, and subject to the deeply ingrained tribalism of the country.

Some papers, especially the *Standard*, have been in opposition and effectively have kept the government out of distribution and delivery of the newspapers. They wanted to know what kind of newspaper they would get. On the other hand, the *Standard* has been the only paper to bill for the administrative costs of the newspaper, and the opposition papers have abandoned a similar practice.

But newspapers are not the only means of communication. They are considered to be the most important means of communication on the subject of the war. The government has been very active in what should be the most important of the people's lives. The people have been told that the measures that have been taken must have been taken. The people have been told that the measures that have been taken must have been taken.

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raised, let us look at the predicament. Private corporations were using Government deposits as capital for their own profit; this great privilege was a reward for party services; the wide and powerful influence exerted in favor of the administration by this system aroused the Whigs from mere party motives, if for no other reason, to put a stop to such abuses. At the same time it was not simply a case of unfair use of advantages seized in an unfair and despotic way, but the policy was exceedingly disastrous commercially and socially; all monetary relations were disturbed by arbitrary apportionments of the capital of the country and wild speculation was undermining the solid basis of industry. Every one felt that something must be done. Tariff revision was impracticable. Mr. Benton proposed, without success, to require all payments for public lands to be made in specie; this touched the heart of the difficulty, it would check the growth of the surplus, but it would not remove the money from the control of the administration, a vital point with the opposition. All that this could have done was done later by the "specie circular."¹ an heroic measure which struck at the root of the disease, but the shock of whose execution hastened a crisis. Investment of the money in the swollen issues of State stock would have been to throw it away, and at the same time to tempt the States to further issues. Webster regarded the deposit bill as a necessity to prevent the accumulation of revenue; building fortifications would not do all; he should vote, he said, for every part and parcel of the fortification bill, yet he was sure it would not absorb the revenue; internal improvements could not absorb it, for these useful channels were blockaded by vetoes. How then was it to be disposed of?²

Calhoun maintained that it was highly dangerous to make way with the surplus by increased expenditures, but more dangerous still to leave it "in the custody of a few monopolizing corporations," selected by the Executive, which used the money as their own while it was in their possession. This arrangement placed an

¹ See p. 27.

² Speech, March, 17, 1836; 4 Webster's works, 236.

overwhelming power in the hands of those who controlled the Government. He could not favor buying State stocks. The deposit probably would not be recalled except perhaps in time of war. The Electoral basis favored the smaller States, which he wanted to do. Depositing, in short, would avoid national extravagance ; would avoid diverting so much capital to unproductive enterprises ; and would enable the States to discharge their debts and finish their internal improvements.¹

It was under the pressure of such feelings that Congress passed the bill. The act was a makeshift. It was not wholly satisfactory to the Whigs, who wanted distribution. Some of the States of the free-trade South received their shares with protests, and received them only because if they refused the North would get them ; others regarded the money as a slight return for the iniquitous exactions of the tariff, but not to be despised though slight. Generally those States looked upon the deposit as a sop thrown them by the protectionists, while a few of them proudly asserted that they could support themselves and were not dependent upon the General Government. Though their feelings were bitterly expressed, they are an honorable contrast to the insatiable greed manifested in some quarters. The administration disliked the act, but felt constrained to sanction it. But in spite of its unsatisfactory nature, and in spite of its unhappy effects in some cases, it is difficult to suggest any thing better. The act was preferable to pure distribution, though it degenerated to that in some instances. The verdict must be that the country was in a sad plight : reckless financial dissipation had had its effect ; disease had so fastened upon the commercial body that there was no way to health or improvement except by a surgical operation. The operation was clumsy, because it was the first of its kind ever performed ; it was painful, because the disease was strongly rooted ; it was injurious,

¹ Speech of May 28, 1836 ; 2 Calhoun's works, 534-68. It will not be anticipating too much to remark that "depositing" was no real safeguard against the evils mentioned in the last sentence, for it encouraged State extravagance, diverted the capital in many cases into unproductive State enterprises, and while enabling the States to reduce their debts etc., it frequently tempted them to contract more debts and to begin more reckless improvements.

because the organism was so deeply affected that an attempt to heal was only less dangerous than neglect. Our criticism and our condemnation must be visited not upon the act so much as upon the courses which made the act necessary.

CHAPTER IV.

THE SPECIE CIRCULAR—THE GROWING SURPLUS—SUCCEEDING SURPLUSES, AND THE ACTION TAKEN BY THE STATES UPON THE DEPOSITS.

THE deposit bill had passed, but though it was directed against the mischievous effects of the surplus it was not all that was needed ; it would not begin to act for six months, and then it only turned the current of the flood instead of drying up its source. To do this the Secretary of the Treasury, by order of the President, after Congress broke up, issued the "specie circular,"¹ ordering that after the 15th of August nothing but gold and silver and in special cases Virginia land scrip should be received in payment for public lands, "provided that till Dec. 15, 1836, the same indulgences heretofore extended as to the kind of money received, may be continued for any quantity of land not exceeding 320 acres to each purchaser, who is an actual settler or *bona fide* resident in the State where the sales are made." This measure was only a return to a strict enforcement of existing laws ; but at a time when credit was very general, so general as to be greatly abused, to have the credit cease in just those transactions where it had perhaps been most abused caused great annoyance and friction. The opposition asserted that the measure failed to accomplish its

¹ It was dated July 11th, and addressed "To receivers of public money and to the deposit banks." It began: "In consequence of complaints which have been made of frauds, speculations and monopolies in the purchase of the public lands, and the aid which is said to be given to effect these objects by excessive bank credits, and dangerous, if not partial, facilities through bank drafts and bank deposits, and the general evil influence likely to result to the public interests, and especially to the great amount of money in the Treasury, and the sound condition of the currency of the country, from the further exchange of the national domain in this manner, and chiefly for bank credits and paper money, the president," etc.—50 Niles, 337.

end, and that its effects were wholly evil; Clay¹ and Ewing declared that it helped the speculators, for they could obtain specie, and Ewing² further objected that it would limit the sale of land and raise the prices, an operation highly favorable to speculators who had bought. But this could not be helped, and it was absolutely necessary to diminish the land sales in some way. The action of such measures is never pleasant, and the "specie circular" was no exception. So great was the popular feeling, however, that the Senate voted to annul the circular 41 to 5, and the House 143 to 59, but the President did not sign the bill.³

At the present time we must conclude that this popular objection was much of it unreasoning. The criticisms which economic writers of to-day make are rather favorable than otherwise.⁴

During the latter part of the summer the people began to gird up their loins for the Presidential campaign, and little interest was shown about the surplus.

September 1st, the money in the treasury amounted to \$37,817,-996.39; this added to the amount credited to public officers—\$4,847,926.55—made a total of \$42,665,922.94 surplus revenue.⁵ Oct. 1st this total was \$46,610,131.77.⁶ At this rate the sum to be divided promised to be about \$50,000,000, or about \$3.75 for each free inhabitant. This would be equivalent to-day to a distribution of \$200,000,000. But these high expectations were not to be realized. Nov. 1st the two accounts stood at \$42,600,000 and \$4,800,000, a gain in the total of only \$700,000. By Dec. 1st

¹ 51 Niles, 15.

² 51 Niles, 260.

³ 52 Niles, 26. The bill was sent to the President March 2d.

⁴ Wirth, in his history of the crisis, says: "This measure [*i. e.*, the circular] for a time had salutary effects. It restrained the action of the Western banks, and at the same time increased in advance their resources against the pressure which soon appeared in the money market of the commercial cities of the East and of Europe. By lessening the extent of the credit system, it did away with the means of excessive speculation, and worked to prevent the tendency to monopolize the best public lands." Wirth, 147. Prof. Sumner: Jackson, 335-7, gives a concise but thorough criticism of the measure.

⁵ 51 Niles, 2.

⁶ 51 Niles, 180.

there had been a falling off of \$500,000, and by Jan. 1st the amount was still less, so that after deducting the \$5,000,000 of reserve there remained only \$37,468,859 97 to be deposited with the States.

Before considering the preliminary steps to the execution of the deposit act which were taken by the treasury, it will be best to gather up some threads of the narrative here, and so render our course freer from digression hereafter.

Some Whig papers feared that the election of Van Buren would put a stop to distribution, and they used his well-known opposition to the scheme as a campaign argument. A specimen may be quoted which will illustrate this feeling. In Connecticut Van Buren had a majority of 620. The *Connecticut Courant*, in commenting upon this result foreboded that the longed-for distribution would be prevented. "When that takes place," said the editor, "it will be found that the people of the State have purchased the privilege of being cheated and duped by selfish demagogues and hungry horse-leeches dearly, by *paying one million two hundred thousand dollars for being imposed upon and degraded.*"¹

The act of June 23d provided only for the surplus in the treasury Jan. 1, 1837. What was to be done with later surpluses? This question arose before the one on hand was fairly disposed of, and long before it was known whether there would be another surplus.

A well-known writer for the press—"Pro Bono Publico,"—hailing from Pennsylvania, suggested that the surplus be used to redeem the Continental money, and thus to wipe away the stain still hanging over it.² This proposition aroused no marked discussion, but the general question received attention on the opening of Congress. On Dec. 12th, Mr. Mercer, of Virginia, moved a resolution to instruct the Committee of Ways and Means to report a bill releasing the States from any obligation to return any part of the surplus that they might receive. This bold step toward pure distribution found many supporters, but was laid

¹ *Conn. Courant*, Nov. 12, 1836.

² *National Intelligencer*, Dec. 12, 1836.

upon the table, 123 to 73.¹ A few days later Calhoun introduced a deposit bill providing for the surplus on hand Jan. 1, 1838, which would amount, he thought, to eight million dollars. If such a revision of the tariff as would prevent a surplus were feasible, it would be best by all means to get it; but in case this should not be possible, it was far preferable to deposit the money with the States than with the banks.² Clay, too, had introduced by this time his favorite land bill,³ but neither of these bills passed. Calhoun's was finally tacked on to a bill appropriating money for fortifications; in this shape it passed the House, but the Senate refused the amendment, 26 to 19.⁴ The House disagreed, and the Senate insisted on striking out the deposit clause, 28 to 22.⁵ Friday, March 3d, the Senate voted, 27 to 23, to *adhere* to its objections to the deposit clause, and the bill was lost by the House voting to adhere to the disagreement, 106 to 87.⁶

During the late fall and winter the State Legislatures were busy in disposing of the prospective funds. Their measures will be detailed later, but this is the best place to show how perplexing the work was, and how carefully the law-makers were watched by those whose hands itched for the Government money. In many cases special sessions were summoned at considerable expense, as there was no little controversy as to the use to be made of the

¹ 51 Niles, 255, and 1 Benton, 707.

² 51 Niles, 309.

³ 1 Benton, 707.

⁴ 52 Niles, 6.

⁵ *Ibid.*, 8.

⁶ *Ibid.*, 24. On this result the Washington correspondent of the *New Haven Palladium* commented as follows: "The Senate has denied the request of the Representatives that their own money be deposited with them, and has decreed that it be left in the vaults of the deposit banks at two per cent. per annum [the eleventh section of the act of June 23, 1836, provided that a deposit bank should pay two per cent. interest a year on all the excess of its government deposits over one-fourth its capital] when to the people it is worth two per cent. a month."

It would be interesting to know how the correspondent, March 11, 1837, knew that money would be worth two per cent. per month nearly a year later.

money. In New Hampshire the discussion took up far more time than the whole session usually occupied.¹

In Massachusetts the question was discussed two or three months off and on, and when the lower house of the Legislature voted 421 to 1 to distribute the surplus among the cities and towns, high hopes were awakened in all children who were out of pocket-money.² The country towns especially were in favor of this proceeding,³ and we read in the *Boston Courier* that most newspapers also "seemed to be in favor of distributing this God-send to the towns in proportion to the number of inhabitants." The *Courier*

¹ Gov. Hill, in approving the bill accepting and disposing of the deposit, said: "With a Legislature composed of gentlemen scarcely less intelligent and patriotic than any other public body that ever convened in the State, the people will be surprised to learn that so great has been the agitation produced in anticipation of the surplus revenue for this State, that the important measures of the session had not even been reported in that branch in which they are expected to originate until long after the period when ordinary sessions have terminated."—The *Globe*, Jan. 30, 1837.

In New Hampshire, a minority report was made against accepting the deposit. See below "New Hampshire."

Mr Knox notes (p. 181) that the Legislature of N. H. by resolution declared any *distribution* of surplus unconstitutional, and instructed their delegates to vote against a relinquishment by the U. S. of the sums deposited, while the legislators of Indiana pursued just the opposite course.

² This extract from the *Boston Courier* is interesting as showing the way in which the topic was looked at by many. "The Western mail has just brought us the following: 'To the Editor of the *Courier*: I have a little son, eight years old, whom parental partiality might regard as a bright boy. He frequently reads the newspapers, and is much interested in the disposition of the surplus revenue in Massachusetts. He is decidedly in favor of its distribution among the towns in proportion to their population, and is particularly anxious about it now, as he is nearly out of pocket-money. Three dollars in his eyes are a large sum for sugar plums, and he is sure if the towns get the money, he shall have so much, whether father and mother are willing or not. Is he not a promising candidate for public favor? Yours respectfully, WORCESTER.'"

Boston Courier, Jan. 19, 1837.

An acquaintance of the writer's was more fortunate in his childhood than this little boy, for he lived in Maine, and still remembers getting between two and three dollars from the town officers.

³ *2 New Haven Register*, Jan. 21, 1837.

had first favored an investment in internal improvements, but some of its contemporaries had replied that this would aid corporations and individuals, and that not a farthing of the money would then benefit the great mass of the people. If lent to the towns, the benefit would be unequal ; why not, then, said the *Courier*, distribute it among the people ? It was true democratic doctrine, and would bring each individual about \$2.¹ At another time, when the division among the towns seemed likely to be carried through, the *Courier* very much regretted that Congress had not provided for the distribution of the money. "The popular doctrine of distribution to the various counties in some States and to towns in some others, is a very excellent one to give opportunities to political demagogues to show their love to the people and help themselves to a little popularity ; but such a disposition can be of no possible benefit to the towns." In five years, not an individual in New England would be able to tell whether it had been of the slightest benefit. As for itself it preferred a "*per capita* distribution of the money ; then, at least, every body would get something."² The matter was not settled till the 21st of March.

In Connecticut a special session was called which met at New Haven, Dec. 21st. The day before the session opened the *New Haven Herald*, a lively little Whig daily, to give the law-makers something to think about, pronounced dividing the surplus up among the towns, which might use the interest but must keep the principal inviolate, "about equal to throwing it into the flames." It would be divided into two hundred and thirty-four parts, there would be the same number of responsibilities, ten times as many subordinate responsibilities when it was loaned, and who could expect ever to scrape it together again ? It did not approve of applying the funds to schools or to improvements, as all would

¹ It continued : "If any one (like ourself, for instance) should have a number of children—say a dozen, more or less—his share of the surplus would replenish his pocket very comfortably—a consideration of no small weight in these days, when breeches pockets are so degenerately empty. This case addresses itself so vitally to every man's sensibilities that we look for a large majority on our side."—*Boston Courier* Jan. 9, 1837.

² *Boston Courier*, Feb. 2, 1837.

not then enjoy the advantages of it ; it would be best to use it to pay the State tax. It should be accounted as a liability of the State, though every man of common-sense could see that it would never be called for.¹

After three days of discussion, the *Herald* declared it did not know how the surplus business was coming out : " Both houses seem to be acting 'upon their own hook.' It will probably result something like the Seminole war, in which every general has achieved a victory and retired, leaving his successors to fight the battle over again, while each 'reposes on his laurels' till a new participant comes to share the glory and divide the spoils. Uncle Sam pays."² The noise of the fray was not confined to Connecticut, but on the 28th of Dec., Mr. Niles, from Connecticut, rose in the Senate in Washington and quoted from a letter he had received from a friend on the spot : " For God's sake send no more money among us." Mr. Niles hoped the fund would prove beneficent to the State, although for a time it might distract its councils. There were those however who regarded the evil as greater than the benefit.³

The bill proposed by the State Senate contained a provision that the interest on this fund be applied to support the town paupers or for education. Of this scheme the *Herald* said : " To give the money to paupers would no doubt be a great relief to the the New York almshouses, and set upon our State such a flood of pauperism as would keep our *inhabitant* MANUFACTORIES in constant exercise of their benevolent designs."⁴ Dec. 27th, in reference to the progress of the debate, it said : " It will be seen by the proceedings of the Legislature that the house, after being in a state of betweenity—in which they have had to stop and take an observation to determine their whereabouts,—have at last got into a ' committee of the whole upon the state of the common-

¹ *N. H. Herald*, Dec. 20, 1836.

² *N. H. Herald*, Dec. 24, 1836.

³ *The Globe*, Jan. 3, 1837.

⁴ *N. H. Herald*, Dec. 27, 1836.

wealth.'"¹ The bill passed on the 29th with two dissenting voices in the House and one in the Senate.²

The *Register*, the administration paper, did not get so excited about the surplus, and laughed at the *Herald* for its fretting. The *Herald*, however, lost none of its interest in the matter, but still had something to say from time to time. On Jan. 17th it jubilantly exclaimed: "We presume the money will be in the treasurer's hands in a few days, and those that want loans should be on the *qui vive* with their securities when the managers will 'down with the dust.'"³

This account has been given at length to present an outline picture of the discussions and feelings that prevailed in every State. From what has been quoted it appears that some looked upon the distribution as a kind of joke, while others considered it as earnest a matter as the acquisition of two dollars is ordinarily regarded. In general the tone of the discussion is undignified, and the demoralizing effects of a distribution policy of this kind are easily seen.

¹ *N. H. Herald*, Dec. 29th.

² During the discussion Wesley [Wesleyan] University and Washington [Trinity] College petitioned for an annual allowance from the fund. *N. H. Herald*, Dec. 26th. At the same time the president and fellows of Yale sent in a petition asking aid in assisting indigent students. This immediately follows the notices of the other two petitions in the report, and one is led to suppose that the surplus may have been the prospective source of this aid. The college books, however, contain no reference to that petition, and the Secretary of the corporation thinks the surplus was not the source from which the college hoped to draw.

³ A little later (Feb. 4th) the *Register* thought the distribution was working favorably, and continued: "Now the people begin to see and own that our national affairs must have been well managed, or such large sums of money could not well have been saved for distribution." This comforting conclusion was only partly true. Under good management the surplus would have been far smaller, and under the best there would have been none.

CHAPTER V.

THE STEPS TAKEN TO CARRY OUT THE ACT—THE PANIC AND THE FOURTH INSTALMENT.

WE have now to consider the steps taken to carry out the deposit act. The amount on deposit in the different States varied widely from the shares that would fall to those States, for the largest deposits were in commercial centres, or in the neighborhood of the land speculations. Furthermore, very many deposit banks had deposits far exceeding their capital. This was true of fifteen of the nineteen banks which employed R. M. Whitney as an agent between them and the treasury; and these nineteen deposit banks contained \$24,200,000, while the sixty-six other banks, which did not employ Whitney, contained only \$16,900,000.¹ Michigan, which was increasing in population with great rapidity, is the strongest case in point. During 1836 \$5,053, 611.52 were received for lands sold there.² In October, 1836, the Farmers' and Mechanics' Bank of Michigan, with a capital of \$150,000, had \$1,029,200 on deposit, and the State Bank, with a capital of \$444,779, had \$1,259,974 on deposit.³

Thus Michigan had \$2,267,174 on deposit within her borders, while her share from the instalment to be received in 1837 amounted to only \$382,335.31.

This was one inequality to be adjusted. But besides this there was another of no less difficulty, for the first section of the act of June 23d³ had ordained that no bank should have Government deposits exceeding three quarters of its capital stock actually paid in any longer time than was needed for the Secretary to remove the

¹ 52 Niles, 91. For the case of the Commercial Bank of Cincinnati see p. 13.

² 51 Niles, 353.

³ 50 Niles, 290, and 51 Niles, 249.

excess according to the provisions of section twelve. Consequently the most arbitrary transfers of money had to be made from place to place, and the money markets of business centres were exposed alternately to hot and cold blasts, while constant transportation of money hither and thither withdrew it from the market to the great embarrassment of business men.

The Secretary of the Treasury had to keep these removals in mind as well as the distribution to come in January. Furthermore, it was necessary to equalize as far as was feasible the amounts on deposit in a given State with the amounts to be distributed to that State, so that when the act was carried out there might be as little disturbance as possible. In accordance with this intention, he notified each deposit bank on November 1, 1836, that a few days after January 1st, or, if the deposit should not have been accepted by the State of — at that date, so soon as it should be accepted, a transfer draft would be drawn upon it in favor of said State for about the sum of \$——. Similar drafts would come April, July, and October 1st.¹ The money was to be paid to the State in which the bank was situated or to some neighboring State. Now it is very clear that here were several delicate and perplexing operations to be performed. The action, as has been said, was wholly arbitrary; no matter how the money market stood, no matter how sharp the demand might be in one place, the law said that the blind transfers of money must be made. Consequently there was first a pressure and then a glut. But the whole affair was vastly complicated by the fact that the deposits, instead of being in the bank vaults, were loaned out in every direction, for the banks had expected to have the money until it was needed for expenditures. These loans all had to be suddenly called in,² an extremely embarrassing task.

A writer of the time vividly described the period immediately preceding the distribution: "The monetary affairs of the whole country were convulsed—millions upon millions of coin were *in transitu* in every direction, and consequently withdrawn from

¹ 51 Niles, 167.

² See Van Buren's Message to Congress in September, 1837.

useful employment. Specie was going up and down the same river, to and from the South and North and the East and West at the same time ; millions were withdrawn from their usual and natural channels and forced against the current of trade in literal fulfilment of the distribution law, to points where public money had previously never been either collected or expended except to a very limited extent."¹

Another writer said : " The passage of the distribution law was the signal for a general contraction of the loans of the deposit banks, and everybody knows that no contraction of bank loans to the extent of *thirty-six millions* of dollars can take place in the United States within fifteen months without creating a great and general pressure for money."²

In fact, the newspapers of the time, both Whig and Democratic, referred the pressure of the spring of 1837 to the influence of the surplus and its management. There is no doubt that it was an effective cause, a cause sufficient in itself to produce a severe strain, but not adequate to produce the crash that finally came. The measures taken to prepare for distribution intensified all the difficulties of the time. So much is sure. But it might be a fair question whether the reckless financiering would have gone to such disastrous lengths without the constant and violent stimulus in the West and South which came from the deposits.

The cotton failures in the South were the beginning of the storm, but cotton speculation was a natural result and accompaniment of the speculative spirit which derived its life from the easy loans of Government money.

March 30th, the *New York American* (Whig) attributed a portion of the embarrassment to the curtailment which the deposit banks were making to be prepared to pay over the second instalment April 1st.³

The *Globe*, a little later, said : " The proximate cause of the

¹ 1 Hazard, 328, from an article by " A gentleman fully versed in the past and present conditions of our monetary affairs."

² " Examiner," in *Nat. Gazette*, Mar. 22, 1837, from 1 *Financial Register*, 67.

³ Quoted in the *Globe*, April 20, 1837.

present disorders in the exchanges, and in some degree in the money market is, as is known to every man of sense, the *distribution act*. This distribution act has rendered it necessary to transfer, from point to point, an immense amount of funds, not according to the wants of the Government, nor according to the demands of commerce, but according to the provisions of an act of Congress which completely binds the hands of the executive authorities.¹

On May 6th, four days before the general suspension in New York, Horace Greeley enumerated twenty-one "causes of our calamities." Among them were : 8th, "The removal of the deposits. Sudden contraction of United States and other bank issues followed by a corresponding expansion. 9th, The accumulation of public money in the Western banks, whence it was loaned and reloaned for speculations in public lands. 13th, The act of Congress authorizing a distribution of the public money. 15th, Injudicious steps taken by the Secretary of the Treasury to prepare for an obedience to the Distribution Law (some say rather with a view to render it odious²) by a premature transfer to the several States."³

Late in June the *Charleston Courier* in discussing the causes of the crisis called attention to the great change in the distribution of the national capital ; it declared that the clause removing the deposits from banks when the deposits exceeded three fourths of their capital, was worse in its effects than the first removal in '33.⁴ \$6,168,854.66 had been withdrawn from the New York City banks between Jan. 1st and April 1st,⁵ \$1,500,000 being in specie. Much of this had been carried West and sunk in land speculations, thus being taken out of the seats of commerce. "That the deposit and distribution act has infinitely aggravated the evils of

¹ The *Globe*, May 10, 1837.

² There appear to be no grounds whatever for this fling.

³ *New Yorker*, May 6th.

⁴ However this may have seemed at the time, it must be remembered that it was the first removal that made this one possible and necessary. It certainly was not expedient to allow a bank with a \$150,000 capital to get gain on \$1,000,000 public money. See p. 35.

⁵ See Appendix II., Table I.

speculation, and has almost indefinitely postponed the period of return to a wholesome condition of things, is demonstrated. That a vast amount of public funds has been lost to the country, we feel convinced ; that it never will be recovered from the States, or what remained in deposit, from that brood of deposit banks which that act brought into existence we feel equally convinced."¹

The deposit banks had suspended with the rest, and, in fact, the Dry Dock Bank, which yielded first in New York, was a "pet." This was a source of keen chagrin to the administration. May 17th Secretary Woodbury sent a circular to the banks that had suspended, beginning : "As the painful information has reached this department through the public press,² that your bank has suspended specie payments, the object of this letter is to learn, officially, if that fact has happened." The banks were therein notified that no further deposits could be made with them, and that what they had would be removed by warrants and transfers, reasonable in amount and time of payment. They were asked further when and how they expected to resume, and what measures they expected to take to secure the Government money.³

On the 26th of May a Treasury order was issued requiring that the public money should be deposited only in banks paying specie ; if there were no such banks, the money was to be deposited in those pledging themselves to return the deposit punctually when wanted, in the same kind of money that was placed in them. The deposits not in such banks were to be drawn and placed in the same.⁴ As the banks had suspended, paper currency more or less depreciated was afloat everywhere. In view of this the Secretary, in issuing his order for the transfers of the July instalment, distinctly informed the authorities who were to receive the money, that no State was "desired to accept from any deposit bank any

¹ In the *Globe*, July 3, 1837.

² It is a sufficient commentary on the deposit system that the relations between the Treasury Department and the depositaries was so loose and careless that the Secretary first learned of such a vital fact through the newspapers !

³ 52 Niles, 183 and 213,

⁴ 52 Niles, 258. During the summer legal proceedings were commenced against nine deposit banks, and additional security exacted from others.

currency which is not available, and at par, and which the State would not hold itself in readiness to account for in the same manner, when required under the provisions of the law. Should any banks fail to deposit such currency, he requested that the orders of transfer might be returned in order that the subject might be submitted to Congress."¹

No instance has been found where a State did this. The States preferred to take a depreciated currency rather than to wait, for they wanted the money as soon as possible, and felt, most of them, that it would probably never be recalled.

Soon after the outbreak of the crisis, May 15th, the President called an extra session of Congress to consider "great and weighty matters," or in other words, what was to be done about the deposit system and about the probability of an empty treasury. The resources of the Treasury had been wellnigh exhausted by the first three instalments, for the great deposits in the Southern and Western banks that had failed were not available.² In his message Van Buren thoroughly discussed the situation. There had been a prospect of a deficiency in the Treasury, he said, which could not well be supplied by drawing on the sums already deposited with States, on account of the restricted conditions of such a call, wherefore he had felt bound to summon an extra session, that the problem might be dealt with as soon as possible. He announced a probable deficiency of \$6,000,000 and under a certain contingency, of \$10,000,000,³ ere the close of the year, and recommended the withholding of the fourth instalment until the money could be collected from the banks; treasury notes might also be issued for speedy redemption. The recommendation about the fourth instalment was sound and commended itself to the good financiers of the time. The *Financial Register* had pronounced the repeal of the act, directing the fourth instalment to be paid, indispensable.⁴

¹ The *Globe*, in 52 Niles, 241.

² See Appendix II., Table II. The first three instalments for the States came mainly from the North and East. In the fall of 1837 there was still \$9,000,000 on deposit in the West and Southwest.

³ 53 Niles, 15.

⁴ *New Haven Register*, Sept. 2, 1837.

Some of the Whig press, however, were disgusted and enraged at the propositions.¹

The whole discussion of the fourth instalment is instructive and rather amusing withal. Many members of the Senate and House declared that the General Government had contracted to deliver the money, and as the representatives of the States they claimed the payment of the debt. True, the United States could not be forced by a legal process, but their honor should be kept stainless. It was only after prolonged and hot debating that on the 2d of Oct. a bill was passed postponing the payment of the instalment till Jan. 1, 1839, when the duty of the Secretary was made peremptory to pay it, the nominal discretion of Congress over the matter being denied.² At the same time the power to recall the amount already deposited was taken from the Secretary of the Treasury and given to Congress, in other words to the States themselves, an action equivalent to declaring the "deposit" a gift to the States, for it was morally certain that the States would never vote to give it back. Jan. 1, 1839, there was no surplus and the fourth instalment was not paid. To this day the three instalments are carried on the treasurer's books as unavailable funds, and are included in "the balance in the Treasury."³ Twice, at least, since 1839 this surplus revenue has been mentioned as an available resource. In his report of Dec. 9, 1840, Secretary Woodbury, in view of a deficiency of revenue in 1842 in consequence of tariff reduction, advised that so much of the surplus as was needful be recalled.⁴

The second time was in 1861, when it was proposed to borrow \$25,000,000 to meet the demands upon the Treasury. As a security for such a loan Secretary Dix, in a letter to the Ways and Means Committee, Jan. 28th, recommended that "the several States be requested to pledge the U. S. deposit funds in their

¹ "Among the '*Grave and Weighty Matters*,' to consider which Van Buren summoned the extra session, is placed first by the Ohio Register: '*To rob the people of more than nine millions of dollars.*'"—*N. H. Herald*, Oct. 6, 1837.

² See 2 Benton, 38.

³ Treas. Report, 1883, 19.

⁴ 3 Hazard, 404.

hands."¹ As for the fourth instalment, again, those who hungered for public money did not fail to look upon it with longing eyes. Gov. Seward, in Jan. 1841, said: "It has been recommended that the Legislature should insist upon the payment by the Federal Government of the fourth instalment of the surplus revenue, and require a relinquishment by Congress of all claims for a reimbursement of moneys constituting the United States Deposit Fund."²

Though applications appear to have been made for the payment of the fourth instalment,³ it was not till lately that a State

¹ 1 Blaine, 397, more fully stated in Knox, 189.

It may be worth remarking that Gen. Dix came from a State where the deposit fund had been kept inviolable. It is not likely that he would have made this proposition if he had come from a State where the fund had long been spent.

² 4 Hazard, 36; 2 Seward's works, 267. The writer cannot forbear quoting the following curious specimens. Gov. Seward says that "if New York got her share yearly of the public-land revenues, the internal-improvement enterprises would no longer be rivals, for all would have all the money they wanted; different educational institutions would no longer contend for shares, as there would be ample for all. We are now obliged to practise a cold, calculating charity. Our almshouses are perhaps sufficiently convenient for those who are brought into them by idleness and vice, but do they afford all the enjoyments we would be happy to yield to the aged, the sick, the widow, and the orphan, whose afflictions are the result of providential visitation unattended by vice or error of their own? . . . Let us bring annually into the treasury of the State her proportion of these revenues (*i. e.* from land sales), and our fellow-citizens can be relieved of the burthen of repairing common roads, and of paying tolls upon canals, railroads, and turnpikes, and from the heavy expenses of the administration of justice, and the support of schools and charities. We are sometimes called by the adversaries of internal improvement to contemplate a condition of exhausting taxation. Who can object to a measure which would almost secure a general exemption from the burthens of government." 4 Hazard, 54-55; 2 Seward's Works, 291. It would be hard to find a more seductive picture of the benefits of a high tariff and of distribution of surpluses. No taxes and every man's car fare paid whither he would go!

³ This is stated upon the authority of Senator Garland, of Arkansas, who asserted (April 16, 1884) that the Secretary of the Treasury had brought the matter to the attention of Congress at nearly every session on account of the applications made by the different States from time to time for the advance or deposit of this fourth instalment.—15 Cong. Record, 2996.

has tried to force the contract view by an appeal to the Supreme Court.

In 1883 the Legislature of Virginia passed an act authorizing a claim to be made upon the Secretary of the Treasury for the deposit of the fourth instalment.¹ This claim was made through the duly authorized agent, but the Secretary of the Treasury refused to grant it. The State then applied to the Supreme Court of the United States for a mandamus to compel the Secretary of the Treasury to deposit with the State an amount equal with the fourth instalment (\$732,809.33). By this means we have a decision of the Supreme Court on the point whether a contract existed, as was so loudly and solemnly proclaimed by the Whigs.

The Court held that no case was made for a mandamus. The "act of June 23, 1836, created no debt or legal obligation upon the part of the Government, but only made the States the depositaries, temporarily, of a portion of the public revenue not needed, as was then supposed, for the purposes of the United States. . . . We are of the opinion that the Secretary of the Treasury has no authority under existing legislation, and without further direction from Congress, to use the surplus revenue in the Treasury, from whatever source derived, or whenever, since January 1, 1839, it may have accrued, for the purpose of making the fourth instalment of deposit required by the act of 1836."²

¹ Knox, 192. Arkansas, through the action of the State Treasurer and Senator Garland, has made a similar claim. The Secretary of the Treasury replied that the tradition of the department for over a dozen years had considered the act of June 23, 1836, as obsolete, "or at least not imperatively effective during a season of large public federal indebtedness," and that he should follow his predecessors.—Knox, *ibid.*

² 111 U. S. Reports, 46-8. The decision was rendered March 17, 1884. April 16th Senator Garland, of Arkansas, remarked that this decision threw the matter back upon the action of Congress, and he offered a resolution that the Committee of Finance should investigate the matter and declare whether, in their judgment, the Secretary of the Treasury should be authorized and directed to make this payment; and if not, what legislation, if any, was necessary to adjust the matter.—15 Cong. Record, 2996.

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CHAPTER VI.

THE SURPLUS IN THE STATES.

ALABAMA RECEIVED \$669,088.95.

THE surplus was accepted December 16, 1836, and the faith of the State pledged "for the safe-keeping and repayment thereof," according to the requirements of the national act.¹

By the act of June 30, 1837, the money was to be deposited in the State Bank and its branches, and all other laws were repealed, provided the deposit was made before May 1, 1838. The State Bank at Tuscaloosa and the four branches, situated respectively in Montgomery, Mobile, Decatur, and Huntsville, were each to have a fifth.² The conditions were complied with, for we soon find in the report of a commission to examine the State Bank that \$133,817.79 was credited to the United States surplus revenue.³

In February, 1840, the interest on the surplus was devoted to form a part of an annual payment of \$200,000 required of the bank and its branches to aid in establishing a school system. This law was repealed January 21, 1843.⁴ The bank at this time was greatly embarrassed by heavy fixed charges, and the repeal was doubtless a measure of relief. In 1841 these fixed charges exceeded its profits about \$500,000 yearly, and were paid from the capital.⁵ In fact, for a few years previous to 1843 all the State expenses had been paid by the banks.⁶ Among the items of the bank capital that was disappearing we find "university and

¹ Acts of 1836, 3; Clay's Digest, 552.

² Clay, *ibid.*

³ 1 Financial Reg., 203.

⁴ Eaton, 12.

⁵ See note 1 on p. 45.

⁶ 63 Niles, 279.

other funds used as a part of the capital of the State Bank, \$1,058,195."¹ The surplus is probably included here.

Besides heavy fixed charges constantly diminishing its capital, bad management increased the difficulties which beset the bank. As early as the close of the year 1839, the bank commissioners of the State announced that the aggregate loss of the bank and its branches reached the sum of \$4,850,000, "squandered, according to all accounts, in every direction, and never more to be returned to the public coffers."²

Hardly a year later, early in 1841, the bad debts due the bank of the State and its branches were officially announced as amounting to \$5,640,761.59,³ while in 1844, or at the beginning of 1845, a legislative committee classified the debts due from the counties of the State to the bank and its branches as follows :

| | |
|------------------------|-----------------|
| " Good " | \$6,755,103 27 |
| " Doubtful " | 1,019,395 18 |
| " Bad " | 6,179,680 27 |
| Unknown | 632,792 48 |
| | <hr/> |
| | \$14,586,781 20 |

The committee thought that by a more efficient mode of collection a considerable part of the "bad" and "doubtful" accounts might be recovered.⁴

We have assumed that the surplus was included in the capital of the bank at this time because we found no mention of its previous withdrawal, but in 1846 we come across a note that implies either a withdrawal at some earlier period, or that the State authorities preferred to consider that the surplus had not suffered by the above-mentioned losses, but was still available for any purpose. In this meagre note the surplus revenue is mentioned among the items of the State's indebtedness along with the "revenue fund and the three-per-cent. fund."⁵ It seems more prob-

¹ A Petition for Reform, 5 Hazard, 294.

² 57 Niles, 352.

³ 63 Niles, 71.

⁴ 67 Niles, 368.

⁵ Am. Alm., 1847, 268.

able that this means that the State had borrowed the fund, taking it from the bank, than that it refers to the obligation of the State to repay it to the General Government. A year later we read : "It is considered doubtful whether the university and school funds, and the surplus revenue, will ever be repaid from the treasury of the State."¹

The fair conclusion seems to be, then, that the surplus was used for State purposes, if not squandered in banking.²

The authorities, however, still kept the deposit in view and, in 1854, set apart and appropriated, among the sums to be known as the educational fund, "the annual interest at eight per cent. on that portion of the surplus revenue of the United States deposited with this State under the act of Congress of the 23d of June, 1836." The fund was available only for the payment of teachers duly qualified.³

This stipulation was repeated in 1856,⁴ and again in 1860.⁵ The interest fell sadly in arrears during the distresses of the war and of the reconstruction period, so that an act was passed October 10, 1868, appropriating \$245,411.46 for the year beginning October 1, 1868, "the same being the interest now due from the State on the school fund."⁶

In the Revised Code of 1867 the surplus revenue forms the first item of the school fund, as in the law of 1854.⁷

But this yearly charge of \$53,596.94 proved too heavy a burden upon the treasury of the State, which was heavily in debt, and had not recovered from the losses of the war. Consequently, in March, 1875, section 957 of the Code was repealed, the school fund re-

¹ Am. Alm., 1848, 286.

² Mr. Eaton says the surplus was used up in the war by the State. It may be so accounted on the State books, but it seems very doubtful indeed whether the old loan was ever repaid from the State treasury. It would be almost an unique instance.

³ Acts, 1853-4, 8.

⁴ Acts, 1856, 34.

⁵ Eaton.

⁶ Acts, 1868, 255.

⁷ Walker, R. C., 262, Sect. 957.

organized, and the first paragraph about the surplus stricken out, no mention whatever being made of it.¹ At the same time, however, the Constitution of 1875 appropriated for education "the income arising from the surplus-revenue fund until it is called for by the United States Government."² This shows that the intent of the repealing act was not to abolish the fund, but to lessen the burden which an interest charge of eight per cent. brought upon the treasury. The discrepancy between these laws was removed by the educational laws of February 18, 1876, and February 8, 1877, which re-enacted the surplus revenue clause of the old law, and changed the rate of interest from eight to four per cent.³ Apparently the school income from this source ceased for only one year. The annual appropriation is now \$26,763.47. This money is all raised by taxation, and is in no way the *income* of the surplus revenue.⁴ The only relation which can fairly be said to exist between this appropriation and the surplus is that of occasion to event; the surplus deposit was the occasion of part of the school appropriation of 1854. Or, to state it a little differently, when they made an annual appropriation for education, a portion thereof was called "interest on the deposit fund."

ARKANSAS RECEIVED \$286,751.49.

By the act of November 2, 1836, the surplus was deposited in the principal bank, and was to be "considered as a part of the capital thereof."⁵

¹ Laws, 1874-5, 170.

² Art. 13, sec. 5. See Code of 1876, 147.

³ Acts of 1876-7, 199; Code of 1876, 384-5.

⁴ "It is erroneously supposed by many that the interest annually accruing on the 16th section, the valueless 16th section, and the United States surplus-revenue funds, was the result of a prudent investment of the capital of those funds in solvent securities; but in reality they have no existence except upon the books of the State offices in which said accounts are kept. The State became the trustee, and her debt long since absorbed them, and every dollar of the education fund, except the annual receipts from the sale of school lands is now directly derived from the revenues of the State."—Report of H. Clay Armstrong, State Supt. of Ed., 1882, p. 7.

⁵ English, Digest, 962; Gould, Digest, 1047.

June 12, 1837, the Bank of the State of Arkansas began business with a capital of \$413,105.29, of which \$286,156.49 was derived from the surplus.¹ The bank suspended specie payments immediately, and consequently did a limited business for a while. The next reference to the surplus appears in 1843. On February 1st, the Legislature passed a bill over the governor's veto, ordering the State Bank "to reimburse the State" \$15,000 in specie from the surplus revenue to meet an appropriation.²

On the 3d of February this first step was followed by a general act, the second section of which runs as follows: "Whenever the ordinary revenue in the treasury shall not be sufficient to meet and discharge warrants drawn under appropriations made, or which shall be made by law, a sufficient sum of the surplus-revenue fund shall be used for the payment of such warrants."³

This act, we are told by Gov. Roane, in 1852, was the result of general bad management. When the banks suspended, they were allowed ten years, during which they were to liquidate their debts. By this course their indebtedness became "confirmed as an account of the State."⁴ Such a condition of affairs discouraged emigration, and "the legislators lost confidence in the State Government and began to try to secure their districts as much treasure as possible." So, to save their constituents from taxation, they used up the surplus for the State expenses, and, to be sure that they and their friends got something before general dissolution came, they divided the seminary fund and the proceeds of the 500,000 acres given for internal improvements among the coun-

¹ Trotter, 337 and 450.

² Acts of Arkansas, 1842-3, 105.

³ English, 962; Gould, 1047.

⁴ "The State debt had its origin in the suspension of the business of the two banks chartered by the Legislature shortly after the organization of the State Government. In order to procure a capital fund upon which to base their operations, bonds to the amount of \$2,827,000 were sold, for the redemption of which the faith of the State was pledged. After their suspension, these banks were placed in liquidation by an act of the Legislature, which extended the time of payment to those indebted for ten years; by which injudicious policy the amount of their indebtedness was confined as an account of the State."—Gov. Roane's Mess., Nov., 1852; Am. Statist. Ann., 1854, pp. 165-6.

ties. This bad policy dispirited the people and hindered the growth of the State.¹

But before the surplus was used up, attempts were made to save some of it for educational purposes. On the same day that it was made subject to appropriation, an act, establishing a system of common schools, was passed, in which it was provided (Sec. 41) : "that so much of the surplus revenue of the United States, distributed to the State of Arkansas, as shall remain unappropriated after the final adjournment of the present General Assembly, shall form a capital for the use, benefit, and support of common schools in this State." The interest was made payable to the counties in the ratio of white population.²

If the friends of education hoped for much help from the surplus, their hopes were in vain, for the fund was almost entirely used up at or near the end of the session.³

If they hoped much from the law, their hopes were equally vain, for it was a dead letter. It did not even protect the little remnant of the surplus. In October, 1846, there was \$13,830.95 of this money to the credit of the State in the bank, and very soon after \$4,667.19 was drawn.⁴ The \$9,163.76, left to the credit of the State, and nominally an educational fund, appears on the books as late as October, 1850.⁵ It is altogether probable, however, that this small remnant soon followed the rest of the surplus.⁶ The law, in fact, was too complicated. As late as 1848, the system had not been organized, and nobody believed that it would be.⁷

The people were perfectly indifferent on the subject ;⁷ and, however bountiful their resources might have been, or how liberal

¹ Gov. Roane : *Am. Statist. Ann.*, 1854, 162.

² Acts of 1842-3, 138. *Am. Alm.*, 1845, 266.

³ Gov. Drew : 1 *Bankers' Mag.*, p. 429.

⁴ Auditor's Report, Table B ; Acts, 1848-9, 216.

⁵ Report, Table D ; Acts, 1850-1, 320.

⁶ It will surprise no student of banking in this period to learn that, though the surplus was almost entirely drawn from the bank, it was still represented as a basis for a corresponding amount of notes of the State Bank in circulation.—

1 *Bankers' Mag.*, 432.

⁷ *Am. Alm.*, 1856, 309.

soever their laws, their own indifference would have rendered their resources useless and their laws without effect.

We could have no better example of the truth, that it is public sentiment which gives life to laws, or no better justification of that only sound principle which makes local taxation the proper source from which to draw the supplies for local wants.

If Arkansas had had a school fund of a million dollars, it would soon have gone the way of the surplus fund, taking the place of taxation for governmental wants ; or the way of the seminary fund, to satisfy the greed of local politicians. The surplus revenue did Arkansas no good, but rather much harm, for its presence led to corruption, and, finally, relieved the people of taxation at a time when they most needed it, and when relief therefrom only sowed the seeds of future backwardness in meeting their obligations. Arkansas failed to pay the interest on that bank debt for thirty years, and, consequently, was numbered among the repudiating States.¹

CONNECTICUT RECEIVED \$764,670.60.

An extra session of the Legislature was called to meet Dec. 21, 1836, mainly to consider the question of the deposit money.² The governor recommended that the school-fund commissioners loan it on mortgage and add the interest to the school fund.³ There was a stormy and confused discussion for nine days, and many propositions were advanced. A bill was finally passed Dec. 29, 1836, with two dissenting voices in the House and one in the Senate.⁴ The act provided that the money be deposited with the towns which might receive it on condition that they should keep and preserve the money as a deposit. The principal was to be loaned on good security at the legal rate of interest, and the entire income appropriated annually ; "at least one half thereof for the promotion of education in common schools in such manner and proportions as the towns may direct ; and the remainder for the

¹ Hunt's Merchants' Mag. Year-Book, 203.

² For further particulars see page 32.

³ *New Haven Herald*, Dec. 21, 1836.

⁴ *New Haven Herald*, Dec. 27, 1836.

ordinary expenses of such town and for no other purpose." "The principal of this fund shall remain permanent, and no part of it shall ever be used for any purposes other than those designated in the act."¹

If the towns failed to make good the losses to the principal within one year after the same should occur, such towns should forfeit a sum equal to the whole amount received from the treasury. When towns refused their shares the treasury should loan them at the expense of the said towns;² and when the towns were divided the surplus also should be divided proportionately.³ For nearly twenty years, about three quarters of the income from the fund, or about \$33,000, was devoted to schools.⁴ Then came the act of June 30, 1855, by which the whole income was applied to schools; one half to be divided *pro rata* among the districts, and one half distributed under the direction of the selectmen and town treasurer.⁵

Of late years the income has been diminishing very rapidly either from losses, lower interest, or from unproductiveness of the funds.⁶

¹ This and the following provisions are dead letters now.

² The towns of Berlin, Grandby, Wethersfield, Brandford, North Brandford, Southbury, and Bolton did not draw their shares, but invested them in State bonds and still draw their interest.

³ Laws, 1837, 61 ff. Gen'l St., 593-8. Eaton, 14.

⁴ "A second and considerable source to meet the school expense is half the income of the 'Town Deposit Fund,' amounting to \$764,670.61 and such portion of the remainder as the towns may appropriate to education in common schools. As far as heard from, about one half of the remainder is devoted to this object—making an aggregate income of over \$33,000. This amount is, in most of the towns, distributed to the school societies, and through them to the districts, on the same principle as the avails of the School Fund. In quite a large number it is divided equally to the districts without reference to the enumeration. This is done to give additional aid to weak districts. The annual appropriation of this fund is one of the 'vexed questions' of town meetings."

First Annual Report of the Secretary of the School Board, Henry Barnard. Connecticut Common School Journal (1838), 161.

⁵ Laws of 1855, 105.

⁶ The income was \$48,078.92 in 1866, wavered between that and \$43,985.75 in 1869, averaging about \$45,000. Since 1877 when the income was \$47,665 it has steadily sunk to \$42,156.28 in 1884.—Report of Sec'y of Ed., 1884, 21.

The following is from the last school report : "The fund originally amounted to \$763,661.83 and has somewhat diminished. The principal has in many cases been borrowed and used by the towns, and exists only in the form of town orders, upon which the towns pay interest. The result is that it does not in fact add to the school resources. The town must raise this interest, which is accounted a town charge, and instead of actually increasing school resources there is simply a transfer of charges on the books. It cannot be said that this is within the intent of the law, which requires the interest to be actually devoted to the maintenance of schools."¹ Some towns have lost more or less of the money and not refunded it.

DELAWARE RECEIVED \$286,751.49.

The share of the surplus that fell to Delaware was exactly one tenth of the share of Pennsylvania, and about one hundredth of the whole sum deposited. As Delaware invested the surplus, we will first see what the investments were, and then what was done with the income therefrom. The money was accepted January 16, 1837, to be deposited in the Farmers' Bank, of the State of Delaware, at Dover. At the same place the subsequently accruing dividends² were to be deposited. By an act to authorize the building of a court-house, etc., at Georgetown, Sussex County, "the State Treasurer was to pay the building commissioners \$5,000 from the surplus fund of this State, to be used in the erection of this building." Sussex County was to pay six per cent. interest on this loan, which was to be deducted from her share of the annual interest from the surplus revenue.³

Four days later a general act was passed, providing for the in-

¹ *Ibid.*

A table of the towns and their shares as they existed in 1847 is in the Report of 1876, pp. 254-5. Statistics of the state of the fund in 1881 in MS. are in the Yale College library, and the office of the State Secretary of Education at Hartford. A thorough investigation of the matter at an early day is promised by the Secretary of Education.

² Acts, 1837, 64-7.

³ Act of February 17th. Acts of 1837, 140.

vestment of the rest. \$250,000 was to be expended in buying 5,000 shares of the increased stock of the Farmers' Bank of the State of Delaware, at par,—to wit, at \$50 per share. If the whole amount expected (\$382,335.31) should not be received, a sum bearing the same ratio to what was finally received, "after deducting the sums already paid thereout," that \$250,000 bore to the amount expected, was to be in Farmers' Bank stock. Further, \$110,000, or a sum proportionate to the remainder of the surplus was to be lent for a period not longer than two years to the Wilmington and Susquehanna Railroad Company, on approved security, provided the company accepted their new charter. Any remaining portion of the surplus was to be loaned under the approval of the Committee of Three, who had charge of the railroad investment.¹

The amount invested under this law, as will appear, was \$180,000 for Farmers' Bank stock, and \$80,793.83 loaned to the railroad. Nominally, however, \$110,000 was loaned to the Wilmington and Susquehanna Railroad Company, and their penal bond for \$220,000 was recorded January 28, 1839.² Soon afterwards this loan was extended to the Philadelphia, Wilmington, and Baltimore Railroad for a period of not more than four years, at the same rate of interest. This was a consolidated road, which had absorbed the Wilmington and Susquehanna.³ The mortgage for this loan of \$80,793.83 was accepted February 22, 1843.⁴ This loan was to be extended under certain conditions till 1860.⁵

The remainder of the surplus, \$20,958.49, was probably loaned under the act, or invested in some way. It is now invested in Smyrna Bank stock and National Bank of Delaware stock.⁶

To return now to the disposition of the income, February 22, 1837, "An act to provide for the distribution of the interest of the surplus revenue" was passed. The interest was to be equally divided into three parts, one part to be for "the use and benefit"

¹ Act of February 21st. Acts, 1837, 175-6.

² Acts of 1839, 205.

³ Acts, 1839, 242.

⁴ Acts, 1843, 521; see also Revised Statutes, 1852, 205.

⁵ Acts of 1847, 139-40, and Revised Statutes (1874), 201.

⁶ Statement of Supt. of Schools.

of each of the three counties, New Castle, Kent, and Sussex. The shares falling to Kent and New Castle counties were to be used for schools, but the share of Sussex County was to be re-divided, one third being set apart for schools, and two thirds to pay the poor tax of the county ; and the treasurer was to see that each county received as nearly equal benefit as possible, keeping in mind the loan to Sussex County.¹ By an amendment, February 12, 1845, the whole of the share of Sussex was to be appropriated to schools.²

The certificates of the Phil., Wilmington, and Baltimore Railroad, which were bought with the surplus and which the school fund owned, amounted at their par value to \$85,000. The fund paid \$80,793.83 for them, and finally sold them in 1881 for \$131,750. Thereupon a single bond of \$156,750 was issued for this sum and for \$25,000 proceeds of some stock in the New Castle and Wilmington Railroad, previously extinguished and paid in, but belonging to the school fund.³

The income from the investments made of the surplus revenue is apportioned among the school districts, and comprises the dividends on 5,000 shares of Farmers' Bank stock, for which \$36 per share was paid ; the dividends on the \$20,958.49 invested in stock of the Smyrna Bank and of the National Bank of Delaware ; " the interest on \$131,750 of the above-mentioned bond for \$156,750 of the State of Delaware to the school funds of said State, at six per cent. interest, issued under chap. 324, v. 16, and the interest on the sum of \$5,000 advanced to the county of Sussex."⁴

To summarize now. Of the surplus,

| | | |
|-----------|----|---|
| \$180,000 | 00 | was invested in Farmers' Bank stock, |
| 80,793 | 00 | was loaned to the Phil., Wil., and Balt. R. R., |
| 5,000 | 00 | " " " Sussex County, |
| 20,958 | 49 | was invested or loaned. |

\$286,751 49

¹ Acts, 1837, 187-8, Eaton, 16.

² Acts, 1845, 41, Eaton, 16.

³ Act of March 29th ; Laws, 1881, 318-9.

⁴ Digest of School Laws, 1881, Art. 13, p. 30.

Now, supposing the bank stock to be worth only \$180,000, though it is really worth more than \$36 per share,¹ and assuming that the Smyrna Bank stock and National Bank of Delaware stock to be at par, we find that the Delaware school fund owns securities worth \$337,708.49, or more, obtained by an investment of \$286,751.49 surplus revenue. Thus Delaware stands far ahead of all the States that received the surplus, for she has now far more to show for it than she received, besides a yearly income of \$15,000² for the support of schools. At present the income of the permanent school fund, including the \$286,751.49 surplus revenue, with the revenue from licenses, amounts to over \$25,000 a year, and obviates the necessity of a State tax for schools.³

¹ The Supt. of Schools is the authority for this.

² Eaton, 17.

³ 5th Ann. Report of Schools, 1880, 53.

CHAPTER VII.

THE SURPLUS IN THE STATES.

GEORGIA RECEIVED \$1,051,422.09.

WHEN the Legislature met in Nov., 1836, Gov. Schley said in his message : "Declarations at the time of its enactment (*i. e.*, the Deposit Act), and since by some of its ablest advocates, that these deposits were intended as *donations* never to be reclaimed ; and the simultaneous avowal by the great beneficiaries of the tariff, that this policy was to become a system to conciliate the complaining States, are calculated to excite a jealous watchfulness of the innovation. . . . The framers of the Constitution never could have contemplated the accumulation of redundant revenues to foster particular interests in its collection, and to subsidize others in its distribution." Further, Georgia had ample resources of her own, and her people were too proud to be the beneficiaries of the National Government. Georgia should solemnly protest and call for a reduction of the tariff. It was best to loan the deposit on good security, that it might easily be returned, and to apply the interest to the State expenses.¹

The Legislature followed this advice, and in their acceptance, Dec. 26th, uttered a vehement protest against distribution, affirming that they would have refused the deposit had it not been for the provision that the share of any refusing State should be divided among the other States.

Two days later an act was passed directing that the money be deposited in the Central Bank of Ga., and loaned to the public like other funds, under the regulation for discounting notes ; it was also to be loaned to sound banks in which the State was a stockholder, to be repaid at sixty days' notice, under a penalty of

¹ 51 Niles, 207.

twenty-five per cent. damages, besides interest. The interest on the loans was to be disposed of according to subsequent acts.¹

Dec. 26, 1837, "An act to establish a system of education by common schools" was passed, by which the academic and poor school funds were consolidated, and together with the interest on one third part of the surplus revenue were formed into a common school fund.² This act was repealed two years later, and the funds were constituted into a poor school fund.³ The appropriation of the common school fund for 1840, under the laws of 1837 and 1838, amounted to \$100,646.89.⁴

But these school laws were not supported by public sentiment, and so easily became dead-letters. In 1870 it was stated on the best authority that the school fund⁵ was being paid into the treasury, and as it was not kept separate from other funds, it was used to pay members of the General Assembly, or other expenses. The same writer continues: "And indeed all the school fund had been paid out in this way before the date to establish (*sic*) a common school system. . . . It has been paid out as fast as received into the treasury ever since. It is now being paid to the members of the General Assembly, and to meet other expenses of the State."⁶

¹ Prince, 837; Hotchkiss, 140-2; see also 51 Niles, 305, and Eaton, 17.

² Acts, 1837, 94.

³ Acts, 1840, 61. Mr. Eaton traces at some length the changes which this fund underwent. As his address is in every considerable library, or can be got by writing for it, it is unnecessary to reprint the matter, especially as educational interests got little benefit from the fund.

⁴ Acts, 1840, 53; Appendix. "Fund" here doubtless means "income" of the fund.

⁵ I suppose this means the income from school funds.

⁶ Supt. Lewis, p. 3 of an open letter to the teachers of the State, appended to the Report of 1871. I am not certain what he means by "the date to establish a common school system," but I suppose the reference is to the law of 1837. (See above.)

There must have been exceptions to the general practice here described, if I have rightly understood Mr. Lewis' meaning, for in 1839 it was stated that the annual appropriations from various funds for purposes of general education amounted to about \$60,000—a sum which was deemed wholly inadequate to the wants of the State. The governor was of the opinion that the present system of education should be thoroughly amended or abandoned altogether.—57 Niles, 202.

This abuse was corrected in 1870.¹

The other two thirds of the surplus remained in the Central Bank, and no special appropriation of the interest has been met with.² In the general statement of the condition of the Central Bank of Ga., Nov. 7, 1842, among the liabilities appears this item : "United States Surplus Revenue, \$1,051,422.09."³ The act of Dec. 23, 1840, contained the following provision : The directors of the Central Bank "are hereby authorized and required to apply, from time to time as need may be, so much of the money of (*sic*) the said bank, not otherwise appropriated, as may be sufficient to pay the interest on the public debt." Furthermore, an additional sum was annually to be applied to the payment of the principal of said debt.⁴ This provision afforded ample means to consume the interest on the surplus without other legislation. In 1841 the Central Bank was in great straits on account of the severe encroach-

¹ Laws of 1870, 61 ; Act of July 28th.

² It is stated in a letter to Blair's *Globe*, Jan. 14, 1837, that these two thirds were appropriated to building a railroad in opposition to the Louisville, Cincinnati, and Charleston R. R. The road meant is doubtless the Western and Atlantic, which was built by the State, and from the income of which the State afterward appropriated large sums for education. But this assertion appears untrustworthy compared with the bank report. The State records in the treasurer's office at Atlanta throw no light upon the subject. In regard to the Western and Atlantic R. R. it may not be going too far from my subject to state a few facts, for this road is, I think, almost the only prominent instance of State ownership of railroads in this country. The road was built by the State. Up to Oct. 1, 1839, it had cost \$1,320,144, all of which save \$250,000 had been raised by the sale of State stocks (57 Niles, 202). By 1849 the debt incurred to build the road amounted to \$1,395,250, and the total cost of 116 miles was estimated to be \$2,300,000. It was hoped that the revenue derived from the road would be a great help in paying the State debt (4 Bankers' Mag., 231-2). In 1858 the State appropriated \$100,000 a year from the income of the property for the benefit of schools (Eaton, 18). The road suffered during the war, but was refitted, and by the act of Oct. 24, 187, was leased with its rolling stock for twenty years "to a corporation mainly composed of the officials of connecting roads." The lessees are under bonds of \$8,000,000 to operate and maintain the road and pay "monthly" a rental of \$25,000 (Pool's Manual, 1884, 460). The estimated value of the road is \$8,000,000.

³ Bank Reports of Ga., 1842, 94.

⁴ Acts of 1840, 150.

ments upon its capital from the acts of the Legislature,¹ but it continued to exist a dozen years more, and then went into liquidation. Gov. Howell Cobb said in 1853: "On careful examination of the affairs of the Central Bank, it appears that after exhausting its resources, there will be left the amount of \$369,500, which must be paid from the treasury."²

It seems, then, that the surplus in Georgia was used up in one way and another, some of it doubtless having been lost on bad loans. Not nearly so much help was derived from it for education as would appear from a superficial examination. It went as the other State funds went, economically or extravagantly according to the quality of the prevailing administration.

ILLINOIS RECEIVED \$477,919.14.

The deposit was accepted December 17, 1836, and the most of it was deposited in the bank of the State.³ On February 27, 1837, was passed an act which involved Illinois in disaster and debt. It was entitled "An act to establish and maintain a general system of internal improvements." Among the resources from which the fund for this purpose was to be drawn are enumerated: "Moneys to be received from the treasury of the United States," by the act providing for a distribution of surplus revenue. When the United States should demand it, payment was to be made out of the fund for internal improvements.⁴

¹ Gov. MacDonald, 5 Hazard, 307.

² Message, Amer. Statist. Ann., 1854, 202.

³ Acts 1836-7, 193. Some additional act is referred to here: "The Legislature of Illinois has instructed the agent of that State to demand and receive the surplus in *specie*, from the institution on which the treasury draft may be given."—*Boston Recorder*, February 3, 1837. I have read somewhere that the specie was transported in ox-carts under great difficulties. The cost of collecting first instalment was \$807. (Treas. Report, Laws of Special Sess., 125.) In consequence of this law Gov. Duncan called a special session of the Legislature June 5, 1837, to consider among other things what to do about the later instalments of the surplus, as the deposit banks had suspended specie payments. (52 Niles, 291 and 359.)

⁴ Acts, 1837, 137.

March 4th, "An act amending several acts" in relation to common schools, was passed to be put in force immediately. It contained the provision: "All monies which may be received into the State under the provisions of any act of Congress directing or authorizing any part of the revenue of the United States to be deposited in the State treasury, except that which has been appropriated to purposes of internal improvement, shall be added to and form a part of the common school fund of the State, and shall be loaned to the State on the same terms upon which the seminary and school funds have heretofore been loaned."¹

Fortunately an interpretation for this rather ambiguous law was found, and a very arbitrary interpretation it was; perhaps, however, no other could have been given. Auditor Davis in his next report said: "In conformity with what I conceive to be the proper construction of the acts entitled [then follow the above titles], I have added to the school fund \$335,592.32 of the surplus revenue, being the amount which the State owed to the school, college, and seminary funds at the time when the said laws were passed."²

Practically the school fund got the second and third instalments and a few thousand dollars from the first. In view of the discrepancy between the internal improvement and common school laws and their uncertain wording it is probably due to Mr. Davis that the school fund got any thing. From his remarks, however, we are not to understand that the money settled the debt of the State to the school fund and restored that to its integrity, for such was not the case, for the State immediately borrowed the surplus

¹ Acts, 1837, 315.

² Auditor's Report. Laws at the Special Session, 1837, 120. "This amount was added and bears interest from the following dates:

| | | | | |
|--------------------------------|---|---|---|---------------|
| Amount loaned 25th March, 1837 | . | . | . | \$239,306.38 |
| " " 2d May, " | . | . | . | 79,306.38 |
| " " 29th Jan., " | . | . | . | 16,979.56 |
| | | | | <hr/> |
| | | | | \$335,592.32" |

and used it up.¹ It paid six per cent. interest on it,² to be sure, but that interest for a time apparently followed the principal, to be absorbed in the vast debt of the State, from the contraction of which no advantage was derived. In this particular respect the surplus was a great injury to the State, for it relieved the people of taxation when they were involving themselves deeply in debt, just the time when the weight of the coming burden should have acted as a brake.³ In Illinois the surplus was expended in extravagant and unsuccessful improvements—undertakings which in reckless management perhaps surpass those of any other State, while they gave rise to unparalleled log-rolling.⁴

The fortunate interpretation of an ambiguous law secured an interest charge for the State school fund. It is with doubtful propriety, however, that the surplus can be said to have helped education in Illinois, though it gave rise to this interest charge on the State treasury.

INDIANA RECEIVED \$860,254.44.

The deposit was accepted Dec. 21, 1836.⁵ On Feb. 6, 1837,

¹ In estimating the State debt, the \$807,585.39 due to the school fund, and \$477,919.44 "surplus revenue which has been remitted by the General Government," were subtracted.—*Illinois Paper*, in 61 Niles, 242. This is the only instance I remember where it is stated as a *fact* that the U. S. had *remitted* the surplus, supposing "remitted" to mean "renounced their claims to."

² Seventh Report on Ed., 132. The loan in this book is dated wrongly 1835; it should be 1837, of course.—See, also, *Am. Alm.*, 1854, 306.

³ In Feb., 1841, the chairman of a Committee on Finance reported that previous legislation on taxation had been conducted on deceptive principles, and that, consequently, alarm in reference to taxation was prevailing. "The people are led to believe that they need not now be taxed more than they have heretofore been; while in truth a large portion of the State expenses have been defrayed by applying the school fund to this purpose—a system which cannot any longer be pursued."—4 Hazard, 162.

"In the foregoing estimates I have not put down any thing to be received from the school fund. There will, of course, be several thousand dollars received from this source within the next two years, to be used as revenue, unless the laws are changed."—Report of Aud. Davis, *ibid.*

⁴ The fuller consideration of internal improvements in Illinois is reserved to another place.—See chap. xii.

⁵ Laws of 1836-7, 97.

was passed an act providing for the distribution of the surplus revenue. It directed that one half should be loaned among the counties in proportion to the number of taxable polls, to be reapportioned every five years, and to be loaned only to citizens residing in the several counties in sums not exceeding \$400¹ to one man at eight² per cent. annual interest. The interest was to be paid over to the school commissioner. Of the other half, \$280,000, or such sum as should remain after the appropriation to the State capitol, was to be invested in bank stock.³

As the payment of the fourth instalment was postponed till 1839, the State issued bonds to the amount of \$294,000, and advanced them to the bank in anticipation of the fourth instalment.⁴ About \$577,000 appears to have been distributed to the counties, which was a little more than half ; consequently enough more was given to the bank to make the division even.⁵

Jan. 27, 1836, an internal improvement law had been passed, authorizing a loan of \$10,000,000 to construct improvements at the expense of the State, which should belong wholly to the

¹ \$300 is the limit in the Revised Statutes of 1843, p. 252.

² Mr. Eaton (p. 19) says the interest was 7 per cent., but the law of 1837 reads 8 per cent. The interest is stated as at 7 per cent. in *Am. Alm.*, 1854, 304, where it is also said that 2½ per cent. went to pay county auditors and treasurers.

³ Acts 1836-7, 3. This act was somewhat revised Feb. 17, 1838, and Feb. 18, 1839 (Acts 1838-9, 30).

I have been unable to find out about the appropriation to the State capitol, if there was any. From the following it would be inferred that there was none : "The surplus has been divided, one half placed in the bank, the interest to be applied to internal improvements ; the other half to be loaned out by county commissioners, and the interest applied to support common schools."—51 *Niles*, 416. The Legislature adjourned the day the act was passed.

⁴ *Dillon* 573 ; 3 *Hazard*, 145. These bonds were redeemed by 1847. (*Am. Statist. Ann.*, 1854, 222.)

⁵ The sum distributed to the counties is stated differently in different years, *e. g.*, in Nov., 1847, \$580,433.89 (*Am. Alm.*, 1849, 301) ; Jan., 1849, \$694,216 (*Am. Alm.*, 1852, 307). This is called simply "S. R. Fund," and may include some of the bank stock ; but in 1852, under the same title, the amount is only \$552,529.92 (*Am. St. Ann.*, 1854, 226). Eaton, however, p. 19, states that exactly half was distributed, viz. : \$573,502.96.

State. Of the interest charges accruing on so much of this debt as was contracted, \$40,000 a year was paid by the bank from the surplus in its hands.¹ More of the surplus was said to be available for that purpose in 1839.²

In Feb., 1841, a law was passed providing for calling in the surplus loaned among the counties, and investing it in bank stock. If anybody who had borrowed of the surplus desired longer time, it could be granted him at six per cent. interest, "upon delivering his note to the proper branch, with sufficient endorsers for the sum he might owe." The bank could then "grant its usual indulgences."³

Henceforward the data about Indiana are uncertain and unsatisfactory, and no help could be obtained from the State authorities.

In 1852, in the Auditor's Report, under the head of "Surplus Revenue Fund," we find :

| | | |
|----------------------------------|-----------|--------------------|
| On account of loans refunded | | \$980.35 |
| " " interest on loans | | 429.36 |
| " " cost of advertising refunded | | 13.00 ⁴ |

Now these figures admit of no certain interpretation from the facts at hand. They may be said to mean that nearly all the money had been refunded before 1852, which accounts for the small payment and interest charge. On the other hand, these figures are equally well accounted for if Mr. McCulloch's statement (quoted below), that nearly all was lost, is accepted. Finally, Mr. Eaton says the money is now nearly all in the counties. This explains the small payment, but not the small interest charge. The reconciliation or rejection of these statements must be left to those who have more information than is at my command.

¹ Acts, 1835-6, 6 ; Trotter, 304.

² 57 Niles, 37.

³ Acts, 1841, 192. The same use was made of the sinking fund, the saline fund, the college fund, and the school fund. 60 Niles, 40. Yet, so far as the law referred to the surplus, it was apparently contradicted in the Revised Statutes of 1843, 251, where it is provided that all money received by the counties from that fund should be loaned.

⁴ Acts, 1853, 155.

By the Constitution of 1851,¹ the school laws of 1855² and 1865, the surplus was made a part of the school fund.³

So far as the interest of Indiana's share went for internal improvements, it was probably wasted.⁴ In 1844 the debt of the State was \$12,218,000. The bank paid interest on \$1,390,000, and on the rest no interest was paid, nor was there any provision therefor.⁵ In 1846 the State compromised with her creditors. For the old securities she would substitute new bonds to the amount of fifty per cent., and give to the holders, in lieu of the other half, a lien upon the canal, canal lands, revenues, and lots. "Indiana has thus," says a writer of the time, "assumed the payment of three millions of dollars, for which nothing was ever realized by the State. Not only were the avails of the bonds to a large amount grossly *squandered* by the agents of the State in the construction of its public works, but bonds to the amount of three millions *thrown away* by mismanagement."⁶

The notice of the surplus in Indiana can best be closed by quoting the testimony of Hon. Hugh McCulloch, at a recent meeting of the Washington Philosophical Society :

"Being invited by the Chair to participate in the discussion, he said that in Indiana the application of the money deposited by the United States had occasioned a long debate, which had resulted in its division. One half, by means of a system of commissioners, was loaned to individuals on land and mortgage ; the other half was put into stock of the State Bank, with which the speaker was at that time connected. In a financial crisis the first half was practically lost, probably less than one twentieth part being recovered ; but the loss was fortunately made good by the bank stock, upon which dividends were regularly paid, and by which the in-

¹ Art. 8, § 2 ; 1 Revised St., 1852, 62.

² Acts, 1855, 161.

³ Statutes, Davis Rev., 1876, 779. "The words heretofore known and designated as the surplus revenue funds," are the words of the last. The plural probably means to include the bank's share.

⁴ See chap. xii.

⁵ Am. Alm., 1846, 287.

⁶ 1 Bankers' Mag., 262.

vestment was eventually doubled. Since the closing of the bank, this money has constituted the school fund of Indiana."¹

KENTUCKY RECEIVED \$1,433,754.39.

Before the question of the deposit came up in the Legislature, one member declared his intention of presenting a resolution to appropriate part of the surplus revenue to African colonization.² It is needless to say that this resolution was not adopted, if ever proposed.

The deposit was accepted Dec. 16, 1836,³ and disposed of by the act of Feb. 23, 1837, which ordered that the surplus "be properly invested." The profits arising from \$1,000,000 were to be "set apart and forever dedicated to founding and sustaining a general system of public instruction," while the profits from the remainder were to form a sinking fund to pay the interest on the internal improvement loan and to redeem the principal thereof.⁴

The investment of the surplus under this act was to be as follows : First, in the purchase of 5,000 shares of stock in the Bank of Louisville ; then $\frac{2}{3}$ of the residue were to be paid on a purchase of 5,000 shares in the Northern Bank of Kentucky as the later instalments come in ; while the remaining $\frac{1}{3}$ were to be paid on the 10,000 shares subscribed by the State in the Bank of Kentucky not paid for with State bonds. Among the conditions, it was laid down that the banks must comply with the act within three months, otherwise the surplus falling to them was to be handed over to the Commissioners of the Sinking Fund. The 10,000 shares of stock in the Bank of Kentucky were set apart and pledged as a fund for the repayment of the surplus when it should be demanded by the United States.⁵

¹ *New York Times*, Dec. 31, 1883. The last clause is hardly accurate, as the school fund of the State is about \$8,000,000. "A part of" should follow "constituted."

² *New York Journal of Commerce*, Nov. 29, 1836.

³ Acts, 1836-7, 4.

⁴ Acts, 1836-7, 319 ; Trotter, 236 ; Pickett, 220.

⁵ Acts, 1836-7, 319.

As Kentucky received only three fourths of what was expected, the million dollar appropriation to education was reduced to \$850,000, with the provision that if the fourth instalment should be paid, \$150,000 should be added to this sum. This fund was placed under the management of the Commissioners of the Sinking Fund till the school board should be organized.¹

By the act of Feb. 23, 1839, it was provided that the interest which had accrued or should accrue beyond the present expenses, should be invested in State internal improvement bonds or in State Bank stock, as the commissioners chose.²

The conditions above referred to in reference to a purchase of bank stock were not fulfilled apparently, for the investments were not made as provided. In June, 1841, James Harlan, Secretary of State, made a special report on the State Bank, and gave therein the following particulars about the surplus: "The whole amount of the *Surplus Revenue* of the United States received by the State of Kentucky was \$1,433,757.58. Of this \$850,000 was set apart as a permanent school fund and invested in internal improvement bonds." A portion of the dividends have been reinvested in the same manner, and the accumulated amount now is \$937,500. The residue of the surplus was subscribed and paid into the Bank of Kentucky, as a part of the fifth million in the capital stock of that bank."³

The Commissioners of the Sinking Fund who had charge of the part of the surplus devoted to education were frequently involved in conflicts with the Superintendent of Public Instruction, and the strife ended in an issue with the governor in 1850-1. "The differences arose as early as 1840 on the refusal [of the Commissioners] to pay the interest on the school fund consequent on the result of the system of internal improvements upon which the State had embarked, leaving a depleted treasury and an impaired State credit." An additional bond for accumulated

¹ Acts, 1837-8, 274; Pickett, *ibid*.

² Acts 1838-9, 355.

³ These were State bonds with interest at five per cent. Eaton, 19.

⁴ 5 Hazard, 64; also 60 Niles, 120.

arrearages was executed in 1848, representing the sum of \$308,-268.42.¹

The income of the school fund was about \$50,000 in 1839.² But the organization of the system went on slowly, or rather there was no system for several years. In 1840 the governor said : "No school has yet gone into operation, as no law for enumerating the children was passed till the last session of the Legislature. Several schools will be organized the present year."³

There was urgent need of a good organization and efficient schools,⁴ but the work was slowly done or not done at all. In 1847 Gov. Owsley said : "As yet for this great cause Kentucky has done but little more than place a law in her statute book which

¹ See Pickett, 220. He gives here full particulars about the history and condition of the State school fund. The executive referred to was Gov. Helm, who affirmed that by the new Constitution the sinking fund was not chargeable with this interest. 5 Bankers' Mag., 626. The act of Feb. 10, 1845, gave some color to the refusal of the commissioners, for it reappropriated the \$850,000 for schools and left out the clause referring to the sinking fund (see Acts, 1844-5, 45). In addition to the failure of the internal improvements the Bank of Kentucky declared no dividend in 1840 on account of a great fraud upon it, perpetrated by the Schuylkill Bank of Philadelphia (see 4 Hazard, 167-72). Usually the income of the sinking fund met all demands for interest and had a large surplus left over for investment, but in 1840 there was a deficit of \$10,802, because there were no dividends from its bank stock. Harlan's Report, 5 Hazard, 64 ; 60 Niles, 120. In 1841 there was a deficit in the State treasury. 4 Hazard, 167-72.

² 2 Hazard, 277.

³ Gov. Wickliff's Message, June, 1840. 3 Hazard, 59 ; 58 Niles, 146.

⁴ Bishop Smith, Supt. of Public Schools, stated in an address that of 140,000 children of school age, only 32,000 were receiving education ; also that under the then existing system it cost about as much to educate the 32,000 as it would to educate the whole 140,000 under the common school system. "In one of the circuit courts the judge ascertained that not one of the fifteen persons summoned as grand jurors could read or write his own name ! In another county, in a public assembly of about fifty persons, not one could be found capable of reading and attesting an instrument of writing."—3 Hazard, 379.

It is fair to add that this report was pronounced most egregiously inaccurate by the *Frankfort Commonwealth*, which asserted that there were vastly more schools and scholars than there were said to be.—59 Niles, 375. Of the value of this statement I know nothing.

has never been carried into effect, and almost justified the reproach that a system of education cannot flourish in a slave State."¹

In 1849 the school fund was stated to be \$1,299,268.42 and the interest \$66,733.99, three fourths of which were "retained in the treasury and appropriated by the State to its ordinary expenditures."² It was, however, considered as borrowed from the school fund which thus rapidly increased in size, for these loans were added to the principal which the State had borrowed on its bonds.

In 1851 the State owed the Board of Education \$1,326,770.40,³ which included the \$850,000 of surplus, or most of it, and the accumulating interest thereon.

At first sight one might name Kentucky among those States which have preserved a portion of the surplus to the present day, and, technically, this would be correct, but the deposit was invested in bonds issued to obtain money for improvements, and, since the improvements did not pay, the interest on the bonds had to be met by taxation; consequently the people pay annually by their taxes what is nominally the income of the surplus. This is true of course only of so much of the surplus as was invested in improvement bonds.

LOUISIANA RECEIVED \$447,919.14. .

The deposit was accepted March 13, 1837.⁴ By the act of February 26, 1838, the treasurer of the State was authorized to apply \$355,000 to the full payment and extinguishment of the floating debt of the State, due the different banks of this State, and of the balance due by the State for its subscription of five hundred shares of stock of the Baratania and La Fourche Canal Company. From the residue of the surplus the treasurer was to pay the balance of the appropriations made by law and due to the College of Louisiana, to Jefferson College, to Franklin College, to the Covington Female Academy, and to the Penitentiary at Baton

¹ 73 Niles, 334.

² Am. Alm., 1851, 273.

³ Am. Alm., 1853, 294.

⁴ Acts, 1837, 74.

Rouge. Whatever might be left was to be put to the credit of the sinking fund and applied to the payment of State bonds due July, 1839.¹

The next provision in regard to the surplus is in the 137th Article of the Constitution of 1852, which appropriated the interest of the trust funds deposited by the United States under the act of June 23, 1836, to schools. In consequence of this, we find among the items of the State debt due the free school fund up to December 31, 1852: "Interest accrued during 1852 on the United States deposit fund, \$28,795.14."² This constitutional enactment was repeated in the Constitution of 1864, Art. 144, and in the Constitution of 1868, Art. 139. The same provision was made in the school law of 1853³ and again in 1855.⁴ It is also contained in the Revised Statutes of 1876.⁵ The liability of the State to repay the deposit is noticed by the State Committee of Finance, in 1844, with the remark that it will "never in all human probability be repaid or demanded."⁶ As the fund was appropriated in 1839, these later enactments in favor of education can hardly be said to be in reality appropriations of the surplus. The money is all raised by taxation, and is called interest on the surplus merely as a formality.

¹ Acts, 1837-8, 26.

² Am. Statist. Ann., 1854, 249.

³ Eaton, 20.

⁴ Acts of 1855, 429.

⁵ P. 342.

⁶ 66 Niles, 44.

CHAPTER VIII.

THE SURPLUS IN THE STATES.

MAINE RECEIVED \$955,838.25.

THE Legislature accepted the surplus and pledged the faith of the State for its repayment January 26, 1837.¹

On the 8th of March following, an "Act providing for the distribution and repayment of the public money deposited by the United States" was passed. It directed that the money be deposited with the cities, towns, and plantations, to be refunded in sixty days after notice, the shares to be apportioned according to a new census. If the towns did not wish to draw the principal they might draw the interest instead. If any towns refused their shares, the interest thereof was to be subject to legislation. The treasurer could loan the shares of such towns as did not give notice of their acceptance by May 1st. The first instalment was to be distributed on the basis of the distribution of the school fund, and the second so that the aggregate of both should be proportional to the population by the new census. It was further enacted: "Any city, town, or organized plantation is hereby authorized to appropriate its portion of the surplus revenue or any part thereof for the same purposes that [for which] they have a right to [appropriate] any money in the treasury from taxation; also to loan the same in such manner as they deem expedient on receiving safe and ample security therefor."²

Doubtless most of the money was distributed according to this provision, but at this time the boundary between Maine and New Brunswick was doubtful, and when an agent was sent into the northeastern extremity of the State to take the census, he was

¹ Acts, 1837, 389.

² Laws of 1837, 403-7.

arrested by the New Brunswick authorities. On this account the estimated share of this district, \$6,000, was kept back by the State Treasurer. "It remained in the State treasury until 1861, when \$5,000 of it were set apart as a separate school fund, the yearly interest of which, at six per cent., is allotted to those towns for the support of schools."¹ Under the act of March 8, 1837, the town of Biddeford at a legal town meeting voted to receive the money, and that it should "be divided among the inhabitants of the town according to families." The officials, however, who received the money refused to apportion it among the citizens; whereupon one W. R. Hooper brought suit against them for his share. The Supreme Court of Maine pronounced such distribution illegal, on the ground that by the statute, the money was subject to such appropriations only as were legally met by taxation, and that it was illegal to raise money by taxation for distribution.²

March 29th, An amendment to the general act was passed to the effect that the second instalment should be distributed on the school fund ratio, and also the third if the census were not finished in time, and that the remaining instalment should be so apportioned as to bring the whole down to the basis of population.³

Not quite a year later, February 28, 1838, the towns were released from all obligation to return the money, and were empowered to distribute it *per capita* according to the census of 1837, or to use it like money accruing from taxation.⁴

Mr. Eaton says that partial returns for the years 1837 to 1839 show that \$659,598 were expended for public schools.⁵ This seems too big an estimate, though no contemporary evidence has been found that can be arrayed against it. Mr. Blaine has said that: "In Maine they made an absolute *per capita* distribution of it among the entire population—a trifling sum to each."⁶ The present State Treasurer writes: "As a rule the surplus reve-

¹ Eaton, 21.

² 2 Shepley in 14 Maine, 375-82.

³ Laws 1837, 441.

⁴ Laws, 1838, 460.

⁵ Eaton, 20.

⁶ Letter to the *Philadelphia Press*, Nov. 29, 1883.

nue was distributed *per capita*. There may have been some exceptions, but we have no information on that point in this office." It would seem unlikely that, if so large an amount as Mr. Eaton mentions had been devoted to education, the fact would have escaped the notice of both Mr. Blaine and the Treasury Department.

MARYLAND RECEIVED \$955,838.25.

In his message, Dec. 28, 1836, Gov. Veazy advised the Legislature to invest the money in some permanent and profitable stock, and to apply the interest to the general purposes of the State till the treasury was relieved, and afterwards to education. Though it was not likely to be recalled, yet the State should be in readiness to return it, and so had better appropriate the interest only.¹

The fund, after the acceptance and before the final disposal, was "applied to discounting real paper at short dates."² On the 18th of March, 1837, \$274,451 was appropriated to pay the interest on the public debt already created. The rest (\$681,387.25) was to be deposited in some incorporated bank or banks in Baltimore, which should pay at least 5 per cent. thereon; the interest was then to be devoted to the support of common-school education, being divided between the counties and Baltimore like the existing fund.³

The Union and Franklin banks⁴ were chosen, and the fund referred to the next Assembly for further disposition.⁵

By the act of March 17, 1838, \$1,000 of the income, which was \$34,069.36, was to be appropriated annually for the education of the indigent blind of the State.⁶

A few days later an act was passed providing that the residue of the income should be distributed yearly, "one half equally

¹ 51 Niles, 292.

² 51 Niles, 273.

³ Acts, 1836-7, ch. 220.

⁴ Later the Bank of Baltimore was added to the list.—57 Niles, 291.

⁵ 52 Niles, 82.

⁶ Acts, 1837-8, ch. 173.

among the several (21) counties and the city of Baltimore, and the other half among the same, according to population."¹

The State, since this time has annually appropriated \$34,069.36, nominally interest on the surplus, but really raised by taxation, for the support of schools. In 1852 it was stated : " There is no common-school system in this State. In the city of Baltimore there is a regular, organized scheme of public instruction ; but the country districts have merely local primary schools, under the direction of the several county commissioners, supported by a county levy in addition to an amount afforded by a proportion of the [school] fund." ²

It was a case where outside aid was not sufficiently supplemented by local taxation. The principal of the surplus was wasted in extravagant internal improvements.³

Gov. Grason said in 1840 that " the remainder of the surplus might be considered as so much added to this State's means of complying with its other engagements." The whole expenditure, including the interest on the public debt, greatly exceeded the annual receipts ; and the deficiency in the revenue was supplied from the special deposits, which, if applied to that purpose alone, would be exhausted in two or three years.⁴

One year later he announced that only \$149,000 of the surplus remained on deposit, while there was a deficiency of more than \$620,000 in the treasury. After using the rest of the surplus, a deficiency would remain of about \$470,000 to be provided for. After that year they must face an annual deficiency of upwards of

¹ Acts, 1837-8, ch. 285 ; Al. Alm., 1840, 237.

² Am. Statist. Ann., 1854, 267.

³ " Unfortunately for this ill-fated State every department (from 1832 on) was under the control of those who held opinions which had been condemned by the judgment of the whole country. They refused to abandon altogether an extravagant system of roads and canals that cannot be consummated in a country like the United States where the population is scattered and sparse. We behold [then] the little State of Maryland having 10,000 square miles of territory and 318,194 white inhabitants staggering along with undertakings that would task the financial resources of the whole kingdom of Great Britain."—Gov. Thomas, Mess., Dec., 1842 ; 63 Niles, 314.

⁴ Message, Jan., 1840 ; 57 Niles, 291 ; 2 Hazard, 177.

\$600,000.¹ As might be expected Maryland suspended payment of the interest on her public debt January 1, 1842.

Four years later, December 1, 1845, the arrearages of interest had amounted to \$1,376,871.24.²

The surplus in Maryland was a temporary benefit to the State's creditors but a permanent injury to the State. It stimulated extravagance, increased the State debt,³ and had a demoralizing effect upon the people generally.⁴ It was several years before the State got out of the straits in which bad financial management had placed her.

MASSACHUSETTS RECEIVED \$1,338,173.58.

The Whig papers of Boston recommended the Legislature to loan the deposits to the banks.⁵

The deposit was accepted the 19th of January,⁶ and disposed of the 21st of March, 1837, as follows: The first two instalments were to be deposited with the towns in proportion to their population by the last census, the last two according to the population by a new census to be taken in May, 1837.

The towns were bound to refund the deposit when the United States Treasury called it in, but, meanwhile, they were to apply the money or the interest on the same to those public objects for which it is lawful to raise money, and for no other purpose. If any town did not pay back the money within thirty days after a call, an execution could be served against the goods of the inhabitants therefor. \$2,500 was to be reserved and loaned by the treasurer of the commonwealth, the income of which was to be

¹ 59 Niles, 291.

² 1 Bankers' Mag., 747.

³ The debt in 1842 was at least \$10,000,000 and by some estimated at \$15,000,000.—63 Niles, 313

⁴ "Nothing has influenced more fatally the evil councils by which so many of the States have become involved, than the delusive expectations, rekindled constantly as fast as they are quenched, of pecuniary largesses from the National Treasury for State purposes."—Gov. Thomas of Md., Dec., 1842; 63 Niles, 313. See also near the end of chap. xii. for a more extended extract.

⁵ *Boston Advocate* in Blair's *Globe*, Dec. 3, 1836.

⁶ 1 Supplements to the Rev. Statutes, 15.

and is paid as follows : March 1st, to the treasurer of Marshpee the income of \$1,000 ; to the guardian of the Chappequiddick and Christian Town Indians the income of \$1,200, one half for the benefit of the said Chappequiddick and Christian Town Indians, the other half for the benefit of the Indians of Gay Head ; and to the treasurer of the Herring Pond Indians the income of \$300, all the said income to be for the purposes of common-school education in these places, and these Indians to have no other appropriation from this money.¹

An amendment was soon passed providing that if any town refused or neglected for six months to accept the money, it was to stay in the treasury for future disposition by the Legislature.² This bill was pronounced by some a compromise and a bid for favor.³

The towns made use of the money in various ways, the majority applying it for town expenses, ordinary and extraordinary, In 1841, 36 towns devoted \$6,625.95 to education, and in 1846. 44 towns applied \$8,392.99 to that purpose.⁴ The appropriation in 1840—was \$9,529.48.⁵ From these fluctuating figures it will be seen that sometimes a town devoted the money to education and sometimes did not.

MICHIGAN RECEIVED \$286,751.49.

Secretary Woodbury, in a communication to the House of Representatives, Jan. 3, 1837, stated that "the payment of the share assigned to Michigan would be postponed till some expression of opinion should be given by Congress."⁶ Michigan was admitted

¹ 1 Suppl. Revised Stat., 20.

² Act of April 1, 1837, *ibid.*, 23.

³ The House did not agree on the bill they sent to the Senate because it was the best, but because it was the only one they could agree on. It seemed to have filled the minds of the members that the only way they could gain popular favor was by voting to distribute it. The act exposed the towns to endless strife and contentions.—*Boston Courier* (the exact date was lost).

⁴ See Table in Appendix III.

⁵ Report of Supt. Mann. 5 Hazard, 320. Also in Am. Alm., 1843, 208.

⁶ 51 Niles, 297.

into the Union Jan. 26, 1837. The people, however, did not wait for that formality, but straightway, after the passing of the deposit bill, they accepted their share by the act of July 22, 1836.¹ The share of the surplus falling to Michigan, having been duly paid with the approval of Congress, was placed by the act of March 22, 1837, to the credit of the internal improvement fund as a loan, to be returned to the treasurer of the State whenever the loan for internal improvements should be obtained, or whenever required by the Legislature.

Further, the board for internal improvements might loan any money not immediately needed to any specie-paying bank for not less than five per cent. interest payable semi-annually.²

In a little over a year \$80,000 of the surplus was passed to the credit of the State, "to be drawn out according to law to defray the current expenses of the State."³ A year later a second \$80,000 was drawn for the same purpose.⁴ In nine months \$100,000 more was credited to the general fund.⁵ The remaining \$26,751.49 "continued to form a part of the internal improvement fund, and contributed to the works for which that fund was provided."⁶

It is hard to see how the surplus was of any real benefit to Michigan. It only relieved the inhabitants momentarily from the burden of their own extravagance. Swept along in the tide of reckless speculation which then carried every thing before it, the people of Michigan had contracted a debt of \$5,340,000 before 1838, when the population was less than 200,000. There seems to be good reason to believe that the presence of the surplus stimulated rather than checked their prodigality, for it was affirmed early in 1839 that their appropriations, *though reduced*, far exceeded the means of the State.⁷

¹ Acts, 1835-6, 61.

² Acts, 1837, 269; Trotter, 342.

³ Act, April 6, 1838; Acts of 1837-8, 244; entered in Treasurer's Report, Acts, 1839, 295.

⁴ Acts, 1839, 179.

⁵ Act, Jan. 30, 1840; Acts, 1840, 46; entered in Auditor's Report, Acts, 1841, 250.

⁶ Deputy State Treasurer, 1884.

⁷ 56 Niles, 160. The *Detroit Advertiser* said: "The only practicable remedy which we can perceive for the pecuniary embarrassments under which the State

That Michigan's share of the surplus was largely wasted, to say nothing of its effects in creating extravagance, appears altogether probable from the words of contemporary writers.¹ Like all the Western States, they planned a great many works at such immense expense that all their resources were used up before any thing was finished, and so very much was lost. When it is remembered that with a population of only 175,169 in 1837, mostly farmers with little capital, in a new country, improvements were designed whose probable cost would equal \$15,000,000,² some idea of the wildness of these undertakings may be obtained.

When such methods of financiering prevailed, it would have been a wonder if the surplus fund had not been wasted like the most of the five-million loan.

Michigan failed to pay the interest due on her debt for some years after the first instalment became due July 1, 1843. In Feb., 1843, the Legislature "covenanted with the bondholders to fund the interest till July, 1845, pledged the revenue from the

and the people thereof are laboring in time and retrenchment. It will go hard with our spoil-loving rulers, but they must come to it. Necessity is a stern master. They have exhausted the treasury—exhausted their credit, now they have become economists from mere necessity. It is time they should."—Niles, *ibid*.

¹ "This State has a debt of about five million and a half of dollars, and what is peculiarly unfortunate the State has lost more than one third of the proceeds of the stock which has been issued, by the infidelity and insolvency of those with whom the loans were negotiated [see 2 Curtis, 122]; and even the amount received has not been expended in such a manner as to yield revenue to any considerable amount. The board of internal improvement in a recent report say: 'We have expended or wasted three fourths of our five-million loan, and what have we to show for it?' We have finished about forty, say fifty miles of the Central, and about thirty-four of the Southern railroads, and there will soon be completed the portion of the Clinton and Kalamazoo Canal between Rochester and Frederick, and where are the profits to remunerate the State for this heavy outlay?"—A. C. Flagg, Comptroller of New York: a report on State debts. *Am. Alm.*, 1842, 106.

² Early in 1842 Gov. Barry writes: "The system of internal improvements projected in Michigan some years ago, when speculation was the mania of the day, embraced about 596 miles of railroad, 233 miles of canal, and the improvement of five rivers. The probable cost would not have fallen short of \$15,000,000."—63 Niles, 336.

public works to the payment of the interest which should accrue after that time," and voted a direct tax to supply deficiencies of interest.¹

In 1846 the Central R. R. was sold for \$2,000,000, and the Southern for \$500,000.² The two cost \$3,343,284.92.³ The circumstances of Michigan's partial repudiation are detailed by Curtis.

MISSISSIPPI RECEIVED \$332,355.30.

The deposit was accepted May 2, 1837.⁴ In 1839 the Legislature passed an act loaning \$30,000 from the surplus revenue to the Railroad and Turnpike Co. in the counties of Newton and Lauderdale. Three bonds of \$10,000 each were executed therefor, payable to the governor, after ten, fifteen, and twenty years respectively. The money was to be spent in improving navigation in the Chickasaw River; if all was not used the residue was to be returned, and in case the United States called in the surplus the bonds became immediately payable.⁵ In reference to an act supplemental to this, three Senators put forth a protest, saying: "By this vote of the Senate, they have in our judgment squandered the public money upon a company of individuals engaged chiefly in speculation, whose personal interest will be promoted by the law in question; while, on the other hand, the State will not be benefited by the appropriation."⁶

Such are the meagre notices about the surplus in Mississippi that the writer has been able to collect; letters to the State officers brought no reply, and therefore he is thrown back upon conjecture, which in this case is not difficult. To judge from the single instance quoted it would seem probable that the money was loaned. Notwithstanding this probability, a consideration of the state of the finances in Mississippi leads to the belief that it was

¹ 2 Curtis, 123.

² Am. Alm., 1848, 310.

³ Am. Alm., 1847, 294.

⁴ Laws, 1824-38, 590.

⁵ Act, Feb. 15, 1839; Acts, 1839, 365; Democratic Rule, 112.

⁶ Democratic Rule, 122; quoted from Senate Journal of that Session, 350.

used for the State expenses, or was squandered during those times of reckless financiering. We find it once mentioned among the items of the State debt, "\$382,335.30 deposited by the General Government, and which is liable at any time to be recalled."¹

Now Jan. 1, 1838, there was a surplus or balance of cash in the treasury amounting to \$279,613.31 $\frac{1}{2}$, not including the sinking fund, the seminary land fund, or the Jackson City lot notes. Besides these items and the above-mentioned cash balance, the State held stock in the Planters' Bank for at least \$2,000,000, which before that time yielded ten per cent. per annum.² Though nothing is said in the connection to lead us to suppose that this cash balance was part or contained part of the surplus, yet it is not at all unlikely.

In 1840, however, the treasury was empty—so empty that there was nothing to pay the Legislature with, whereupon that body disbanded.³

In Jan., 1842, the treasury had receipts of the Attorney-General for claims on the Brandon and other broken banks for the sum of

| | |
|---|-----------------|
| Also notes of the insolvent Miss. R. R. Co. | \$233,102 |
| | 63,030 |
| | <hr/> \$296,132 |

There were some other notes to raise the total to about \$298,000, but these securities were not worth five per cent. on their face value. In addition the treasury had thirty-four cents in specie, while the "real and pretended claims against the State exceeded the sum of \$8,000,000."⁴

Under such circumstances and in the absence of adverse testimony it seems safe to say that the surplus was applied to State expenses, and at a time, too, when the State finances were too recklessly managed to permit of economy. It does not appear unjust, then, when we look at the only notice we have of any part of the surplus and the disposal thereof, and at the way the State finances

¹ Democratic Rule, 106.

² Democratic Rule, 218-220; from Senate Journal, 1843, 25.

³ Democratic Rule, 166.

⁴ Democratic Rule, 218-220.

were carried on at that time, to say baldly that in Mississippi the surplus revenue was utterly wasted.

MISSOURI RECEIVED \$382,335.30.

By the act of Feb. 6, 1837, the Legislature set apart all money which might be received under the act of June 23, 1836, for investment by the governor in the stock of any bank which the State might incorporate ; and all the interests and profits that should accrue thereon were to be applied to the use and support of common schools. The fund was to be styled the common-school fund. The interest was to be added to the principal till the fund amounted to \$500,000 or more, after which time the income was to be used for the payment of " teachers in common schools," as the General Assembly might direct by a system of common schools. If the surplus should ever be recalled after it was invested in any bank stock the State should issue bonds to such a bank. These bonds were not to pay over five per cent., and in other respects were to be like previous bonds.¹ The bank chosen was the Bank of St. Louis, chartered Feb. 2d, with a capital of \$5,000,000.² This system of common schools was established by the act of Feb. 9, 1839.³

Among the funds we find enumerated : " All moneys heretofore deposited or which shall hereafter be deposited with this State according to the act of June 23, 1836." ⁴ As in the first act the fund must accumulate till it reaches \$500,000. There were many other regulations, as can be seen from the length of the act. Among them may be mentioned the restriction limiting the yearly expenditure to the income of the previous year, and further, forbidding it to exceed sixty cents for each white child between six and eighteen years old residing where there was a school organization entitled to a share in the distribution.⁵

¹ Acts of 1836-7, 137.

² Acts of 1836-7, 13.

³ Acts, 1838-9, 112-149.

⁴ Repeated in Acts, 1853, 147 ; also in 2 Rev. Stat., 1855, 1414.

⁵ Acts, 1838-9, 115.

The portion left over in 1843 was borrowed for a year by the State to be repaid, apparently with interest at six per cent., Feb. 1, 1844.¹

In the Constitution of 1865, Art. ix., Sect. v. : "All moneys, stocks, bonds, lands, and other property now belonging to any fund for purposes of education" were constitutionally confirmed as parts of the school fund. Section vi. says : "No part of the school fund shall ever be invested in the stock, or bonds, or other obligations of any State, or of any county, city, town, or corporation." All such stocks then held were to be sold and the proceeds invested in United States bonds.²

The bank which we have mentioned was under the patronage of the State, which subscribed to three tenths of its stock of \$5,000,000. If we are not mistaken, it was later styled the Bank of the State of Missouri. While the surplus was invested in this stock, the income was variable, but averaged about $5\frac{1}{4}$ per cent. annually for the first eleven years. The fund is now invested in six per cent. State bonds.³

Missouri, then, is one of the half dozen states which have saved the deposit to the present day.

¹ Acts, 1842-3, 12.

² General Statutes, 1865, 40-1 ; also in 2 Rev. Stat., 1879, 1397.

N. B.—In Myers' Supp. to Wagner, p. 424, the bonds of the State of Missouri are made exceptions to this rule.

³ Eaton, 22.

CHAPTER IX.

THE SURPLUS IN THE STATES.

NEW HAMPSHIRE RECEIVED \$669,086.79.

GOVERNOR ISAAC HILL, in his message, December, 1836, recommended that "the money he loaned on undoubted security," and that the interest, which he contended was all that fairly belonged to the State, be exclusively applied towards the discharge of the ordinary expenses of government.¹ In another place the long legislative struggle over the deposit has been noticed. In general, the distribution bill seems to have been unpopular.² The surplus was accepted, however, January 11, 1837, and on the 13th a bill was passed which provided that it should be deposited with the towns on this compound ratio: one half according to the new proportion for the assessment of public taxes to be made at that session, and one half according to the number of ratable polls for the year 1836. The faith of the towns was to be pledged for the return of the money, which they might loan but not spend or appropriate.³

¹ Blair's *Globe*, December 3, 1836, from the *Albany Argus*. The passage is introduced thus: "Governor Hill, with an eye to the true interest of the distribution bill, and with a view to retain the share of the State within the reach of the authorities responsible for its repayment, recommends," etc.

² "A minority report was made [in the Legislature] in which reasons were urged against the acceptance of the money, and recommending the adoption of a resolution, declaring that the distribution of the surplus is not only unconstitutional, but highly dangerous to the liberties of the people."—*Mercantile Journal*, in the *Boston Courier*, December 15, 1836.

The distribution bill, according to some, would seem to have opened the way for the political promotion of Franklin Pierce. He was elected Senator by 108 votes out of 160, and the following comment shows the connection of this event with the "Distribution": "Mr. Page, the present incumbent, seems to have given offence by voting for the distribution bill."—*The New Yorker*, December 24, 1836.

³ Laws, Nov. Sess., 1836, 231.

It is noted in Niles that the towns of Haverhill and Newport voted to receive their portions in specie.¹ A year and a half later the act was amended to the effect that the moneys could be loaned or appropriated for any purpose for which the towns could lawfully raise money.²

July 4, 1839, an act was passed authorizing any town to transfer or convey to the New Hampshire Asylum for the Insane its share of the surplus revenue, on condition that the institution should be located in such town. The towns were not released from their liability.³ In two years it was made "lawful for any town in this State, at a legal town meeting, to make any disposition of the public money as, by a major vote, said town should determine."⁴ According to the Revised Statutes adopted December 18, 1842, the towns might, at a legal meeting, make such disposition of the money "as should be deemed equitable and expedient." They were still accountable if the United States should demand the money. "In case of such a requisition the treasurer, on a warrant from the governor and his council, shall pay it from any money in the treasury; and if that is not sufficient, he shall raise a loan, at not more than six per cent. interest, for that purpose."⁵ It seems probable that a considerable, if not a large, part of the surplus was distributed.⁶

¹ 52 Niles, 48.

² Act, July 4, 1838; Acts, 1838, June Sess., 355.

³ Acts, June Sess., 1839, 38. The Asylum was located at Concord.—Rev. Stat., 1842, 55.

⁴ Act, July 2d; Acts, 1841, 538.

⁵ Rev. Statutes, 1842, 55; Gen'l Statutes, 1867, 52.

⁶ Prof. R. E. Thompson says: "New Hampshire illustrated extreme democratic principles by distributing the money among her citizens," but this statement is rather too broad, as is shown in the text.

The following are of interest: "*Dividing the Surplus in New Hampshire.*" In Portsmouth, N. H., the inhabitants voted to divide that portion of the surplus revenue which fell to that town, per capita—the sum due to every man, woman, and child in the place being between two and three dollars. That vote is now in course of execution. An agent has been appointed and has received the money for distribution; but about two hundred suits have been commenced against him as the trustee of individuals owing small sums, and he is placed in rather an embarrassing situation.

"In Gilford (the *Exeter News-Letter* states) the surplus or a part of it hav-

About fifty towns seem to have kept the money invested, if we may judge from the appropriations for schools fifteen or more years ago.¹

Mr. Eaton estimates that about \$1,800 a year has been derived from the surplus for school funds, or about five and a half per cent. of the annual interest at six per cent.²

"There still remains in the State treasury the sum of \$1,009.44 with the accumulated interest of \$1,723.82, which was assigned to sundry unincorporated places and where there was no one to receipt for it." The treasurer's books "do not even show the amounts paid to the several towns."³

NEW JERSEY RECEIVED \$764,670.60.

New Jersey accepted the deposit November 4, 1836,⁴ and Governor Dickerson recommended that it be added to the school fund.⁵ By the act of March 10, 1837, the money was appropriated among the several counties according to the ratio of the State tax paid by them; chosen freeholders were to pledge the faith of the county on receipt of the trust, and were empowered to loan and reloan the money upon bond and mortgage or other good and sufficient security, as should seem to them safe and proper. Men of their own county were to receive the preference among the applicants for loans. The freeholders, further, must sue for and recover the same with interest in their corporate capacity,

ing been expended, the selectmen decline to borrow, as instructed to do by the vote of the town, so much money as will make good the deficiency—having some not very unreasonable doubts of their legal right to borrow money for the purposes of distribution."—5 Hazard, 186.

These little men copied well the example of the great men at Washington, who wanted to borrow money to distribute as the fourth instalment.

¹ See Table in Appendix IV.

² In the year 1848-9 the income from the surplus among the school funds was \$2,500 (Am. Alm., 1850, 231); in 1860-1, \$1,512.06; 1861-2, \$2,460.51 (Nat. Alm. and Ann. Record, 1864, 279).

³ Letter from the treasurer.

⁴ Acts of 1836-7, 10.

⁵ *Boston Courier*, January 19, 1837, and Revision of New Jersey, 1131-4.

and apportion and pay the interest to the several townships in the above ratio of the State tax, for the benefit of said township or the inhabitants thereof. The freeholders were to be paid by the day in no higher proportion than for other services. The penalty for embezzling was to be a fine not exceeding \$1,000, or imprisonment not exceeding five years, or both. If the board of chosen freeholders should neglect or refuse to pledge the faith of the counties, the money should be loaned for the benefit of the counties, at their own risk; the freeholders also were to publish an annual report in the chief county paper of all their transactions.¹

Two years later Mercer County was formed, and received its share of the surplus from the counties out of which it came. The interest of its share was to be paid to the townships in proportion to the county taxes they paid.²

This fund was henceforth spoken of as "State property not now productive, consisting of the surplus revenue lent to the counties without interest."³

It is probable that more or less of the income was devoted to the support of schools from the first. In the year 1861 \$30,-505.76 of the school money was obtained from interest on the surplus.⁴

Mr. Eaton estimates that \$15,000 a year was added to the school income up to 1852 from this source, and from 1852 to 1867 about \$30,000 a year.⁵ In 1867 the whole income of the fund was appropriated to schools in "an act to establish a system of public instruction." Art. ix. Sect. 77, reads: "Be it enacted—That the several townships of the State are authorized and required to appropriate the interest of the surplus revenue received by them, and from other funds not raised by tax, such sums for the support of public schools as they shall order and direct at their annual town meetings."⁶

The income for education from the surplus was \$349,313.18 in

¹ Acts of 1836-7, 432.

² Acts, 1839, 158; Revis. of N. J., 1131-4.

³ Am. Alm., *passim*, 1852-61.

⁴ Nat. Alm. and Ann. Record, 1863, 422.

⁵ Eaton, 23,

⁶ Laws, 1867, 378; Revision of N. J., 1086.

the eleven years 1866-77, or an average of \$31,755.74 a year.¹ In 1876 it was \$30,523.54.² The smallness of this sum is explained and the condition of the fund stated in the following extract from a letter from the State Superintendent of Schools, Mr. E. A. Apgar: "I think there is not a county in the State where the fund remains intact. It has been used for various purposes, principally for the erection of county buildings and in the payment of war-bounties. Sixteen of our twenty-one counties continue to set apart every year out of the county funds amounts equal to the interest that would be derived if the fund continued to draw interest. That which is appropriated, therefore, as interest of the surplus revenue fund, is really raised by taxation, and schools, therefore, cannot be said to receive any benefit from the fund."

NEW YORK RECEIVED \$4,014,520.71.

The deposit was accepted Jan. 10, 1837, and was ordered to be deposited in the banks paying the highest interest.³ By the act of April 4, 1837, the money was apportioned among the counties according to population, to be loaned out on real estate; loan commissioners to manage the fund were to be appointed by the governor and confirmed by the Senate; the lands on which mortgages were taken must be worth double the amount of the sum loaned, exclusive of buildings, and of the value of the rent in perpetuity, if any were charged thereon; the borrower must have a title in fee, and the land must have been improved. The commissioners must give a full report the first Tuesday in each December. The interest was to be at seven per cent. Outside of New York City the sums loaned were not to exceed \$2,000, or to be less than \$200; within the city the limits were respectively \$5,000 and \$500. The commissioners were paid as follows: for loaning \$25,000 or less, $\frac{3}{4}$ of 1 per cent.; on further sum of \$25,000 or less, $\frac{1}{2}$ of 1 per cent.; for loans amounting to more than \$50,000, $\frac{1}{2}$ of 1 per cent. on the whole, except in New York City, where upon sums exceeding \$50,000 the fees were to be $\frac{1}{4}$ of 1 per cent.

¹ Eaton, 23.

² Raum, Hist. of N. J., 294.

³ 3 Edmonds, 75; 3 Fay, 349.

When the repayment should be called for the comptroller was to issue State stock on the most favorable terms to raise the money.¹ Under this law the State, like Indiana, loaned the fourth instalment in anticipation of its early appearance.²

By an act supplementary to this general act, the comptroller was authorized to invest any money of the "United States Deposit Fund," as it was called, that might be in the Treasury, in State stocks, loans, or bonds of the United States.³ The losses of the principal were to be charged on the income. The power thus given to the comptroller has been a very salutary one in the history of the fund, as will appear later, and this direction about charging losses to interest has been the only way by which the fund has preserved its original size. In 1873 \$100,000 of the income was transferred for this purpose.⁴

By the act of May 2, 1864, the commissioners were authorized to invest any moneys on hand in county bonds issued to pay bounties to volunteer soldiers.⁵

The Legislature in disposing of the interest on the fund followed closely the general recommendations of Gov. Marcy.⁶

By the act of April 17, 1837, \$110,000 was appropriated to

¹ 3 Edmonds, 78 ff.; 3 Fay, 350 ff. The act takes up twenty pages in Edmonds.

² "The fourth instalment of the United States surplus revenue is still withheld. The portion of that instalment due this State is \$1,338,178.57. Relying upon prompt payment of that instalment, the State has loaned an equivalent sum to her citizens. I cannot doubt that you will insist upon the fulfilment of the pledge of the Federal Government, and will at the same time protest against the withdrawal of the instalments already received."—From the Message of Gov. Seward, Jan., 1840. ² Hazard, 49; 57 Niles, 323. There was nothing half-way about Seward's plans of distribution (see page 42, note 2). On the *pledge or contract* theory of the deposit see page 43. So far from having \$10,000,000 surplus to give away, the Government was \$5,000,000 in debt, but that made no difference with the distributionists.

³ 3 Edmonds, 117.

⁴ 3 Fay, 367.

⁵ 6 Edmonds, 303.

⁶ Gov. Marcy recommended that while the deposit remained, \$110,000 annually be devoted to common-school education, that a liberal amount be given to academies in a way to increase both the literature fund and their annual share of money, and that the remainder of the income of the deposits be added to the capital of the common-school fund.—Blair's *Globe*, Jan. 10, 1837.

third mortgages are taken. Searches are not made. Minutes are not kept. The supervisors whose duty it is to examine the fund annually in the different counties and report to this department its condition, in the majority of cases fail to report. Forged and fictitious mortgages have been taken, and during the past year two of the commissioners—one in Jefferson Co. and the other in Chemung Co.—have absconded, and have been found to be defaulters to the fund in considerable sums. In one county alone property upon which the commissioners had loaned \$49,000 has been advertised for sale the past year on account of non-payment of interest, of which amount the State bid in \$33,500. It is clear to my mind that the control of this department over the fund is too remote to be of use in its management, or to be of satisfaction to the Comptroller. Considerably more than \$3,000,000¹ of the principal of the fund is invested in mortgages, and the control of this large sum is in the hands of men more frequently chosen for political considerations than from any peculiar fitness for the duties imposed on them. In view of the facts recited I recommend that legislation be had abolishing the office of loan commissioner, and providing that the mortgages in their possession, with the records, be transmitted to this department, and the fund with its responsibilities be placed in the hands of the Comptroller.’”

This recommendation was repeated in 1879 and 1880. The Comptroller of the State in the Report of January, 1884, urges very strongly that as fast as loans become due, the commissioners should be compelled to forward both principal and interest to his department. “For the safety of the fund this is now absolutely essential.” “The law requires loans to be made on the best of security, at six per cent. interest. This cannot now be done.”

Therefore much money lies idle in the hands of such commissioners as refuse to return it. The losses and expenses, he says, have, for the past thirty years, been over \$29,000 a year.

“The State has to-day,” he goes on, “thousands of dollars in-

¹ The amount invested in mortgages and county bonds Sept. 30, 1883, was \$2,352,832.26 which is \$220,000 less than it was the year before.

vested in farms, the result of foreclosed loans, that will not sell for a third the principal and interest due." ¹

These testimonies cast a shadow over the figures that look so well. In New York we may say that the income of the surplus has been well used, but the principal badly managed.

NORTH CAROLINA RECEIVED \$1,433,727.39.

The deposit was accepted Jan. 11, 1837, and was deposited in the banks of the State for safe-keeping, not being subject to draft save by the special order of the General Assembly, or unless the safety of the same should require it. ²

Gov. Dudley recommended that the principal be employed for internal improvements, and that the income be devoted to the establishment of common schools, or some other object; he also declared that the tariff ought to be modified so as to lessen the revenue. ³

In "An Act to Aid Internal Improvements," which was passed that year, are found enumerated among the resources for that purpose: "Besides the funds heretofore set apart for internal improvements, all the surplus revenue, after deducting: the sum of \$300,000, which is to be devoted to the redemption of the public debt of this State; the sum of \$300,000, which is to be paid for stock subscribed in the Bank of Cape Fear; ⁴ and that portion of the said surplus which is to be added to the literary fund, and to be applied to draining the swamp lands." ⁵

All that we need to clear up this is the amount appropriated for draining the swamp lands, which was \$200,000. ⁶

In accordance with this law we find: "Among the receipts of the literary fund—cash: That part of the surplus revenue appropriated to this fund by the last Legislature for the subscription

¹ Comptroller's Report, 28.

² Laws, 1836-7, 305.

³ 51 Niles, 209.

⁴ This appropriation was by the act of Jan. 23, 1837. Acts, 1836-7, 6.

⁵ 1 Revised Statutes, 1837, 349.

⁶ Fayetteville *Observer* in Am. Alm., 1838, 231. I mention this authority to call attention to the fact that the other statements there made do not accord with the notices in the original authorities.

for stock in the Bank of Cape Fear, and for draining the Swamp Lands of this State, \$500,000.”¹ Among the receipts of the internal improvement fund we find—“Cash : Being part of the surplus revenue \$533,757.39.”² Of the \$400,000 remaining, \$300,000 was applied to the debt as explained below, and \$100,000 was used to pay the civil and contingent expenses of the State by the act of Jan. 27, 1837.³ The \$300,000 applied to the debt was made use of as follows : \$300,000 worth of land scrip had been sold to the Secretary of the Treasury of the United States for the use of the Cherokee Indians. The governor was now authorized to appoint a commissioner to buy this back, and to do this the governor was authorized to draw on the banks for a part of the surplus, not exceeding \$300,000. The scrip was to be re-issued in case the United States called for the surplus.⁴

We can now make a tabulated statement of the items :

| | |
|---|-----------------------|
| 1st. To defray civil and contingent expenses . . . | \$100,000.00 |
| 2d. “For the payment of stock in the Bank of Cape Fear, subscribed for by the president and directors of the literary fund ” ⁵ . . . | 300,000.00 |
| 3d. “For draining the swamp lands of the State under the directions of the Board of Litera- ture ” | 200,000.00 |
| 4th. To redeem the Cherokee land scrip . . . | 300,000.00 |
| 5th. Added to the internal improvement fund . . . | 533,757.39 |
| | <u>\$1,433,757.39</u> |

During 1837 the Board of Internal Improvements invested

¹ Treasurer's Report for 1838-9, in Acts of 1838-9, 203.

² *Ibid.*, 205.

³ Acts, 1836-7, 167 ; Treasurer's Report, 200.

⁴ Act, Jan. 21, 1837 ; Acts, 1836-7, 307 ; Treasurer's Report, 200. In the Treasury Report of Dec., 1840, a full quotation from which was kindly sent me by the State Treasurer, this transaction is referred to in other words which may throw light upon it. The item reads : “For the redemption of the public debt due the United States, in trust for the Cherokee Indians, created for the purpose of paying the State's subscription for the stock in the Bank of the State of N. C., which stock constitutes a part of the fund belonging to the Board of Literature, \$300,000.”

⁵ These two items are worded as in the Treasurer's Report of 1840.

\$300,000 of their part in stock of the Wilmington and Raleigh Railroad, and apparently loaned the residue.¹ Before 1841, however, the whole of their share had been put into the railroad.² All of the surplus, except the \$100,000 devoted to State expenses, was a part of the educational fund.³

In 1840 Governor Dudley recommended a change of management in the literary and improvement funds, by which their resources should be handed over to the banks of the State, and of Cape Fear, for which the banks would make a large loan to the Wilmington and Raleigh, and Raleigh and Gaston Railroad Companies. He said that the most of the counties had adopted the common-school system, and that a few had received the State's quota of money. The want of schoolmasters was the only complaint that had reached him. This was the universal complaint at that time in States beginning to form school systems. Further, he pronounced the acts of 1836-7, creating the Boards of Internal Improvement and of Literature of North Carolina, very defective, and in great need of revision. Large sums of money were at their disposal, which they were required to invest in bank stock, and to lend to individuals and corporations. These funds were daily increasing by appropriations, interest from loans, and bank dividends. If it were intended to establish a loan office, necessary provisions should be made. "It certainly never could have been intended," he adds, "to convert the executive into a loan office, occupying more of the attention and responsibility of the governor than all his other duties combined, and diverting him from the higher and more enlarged trusts committed to his care." These funds ought not to be loaned, but invested.⁴

The Cape Fear Bank investments were good, for the bank paid semi-annual dividends of 3, and later of 3½ per cent. on the

¹ The item among the disbursements of 1837 of the Board reads: "Cash paid W. and R. R. R., being a subscription of stock under an act of the last Legislature, \$300,000; loaned by the managers, \$549,450.—Treas. Rep. Laws., 1836-7, 206.

² Treas. Report of December, 1840.

³ Letter from the treasurer.

⁴ 4 Hazard, 7 ff.

stock owned by the literature fund.¹ The progress of the school system was slow at first, but by 1855 it was growing rapidly into efficiency.² The experiments of North Carolina in internal improvements in general were not a success financially.³

The treasurer of the State writes: "The investments for the benefit of the educational interests of the State were considered wise and judicious, and yielded before the war handsome dividends. The results of the war rendered all of them unavailable,⁴ except the stock in the Wilmington and Raleigh (afterwards known as the Wilmington and Weldon) Railroad Company. The stock in this company was sold in 1869 by the State Board of Education, composed of State officers elected under the reconstruction acts, [at what was] supposed by them to be a fair value [valuation], viz., \$148,000, and invested in *worthless* special tax bonds, now not considered as legal obligation of the State. In fact, the people have repudiated them, in view of the questionable authority under which they were issued. . . . It appears that the original investments were made solely to advance the educational enterprises and interests of the State, the loss of which, for the most part, is attributable to the results of the war."

¹ Treas. Report, 1848; Acts of 1848-9, 11-13. Treas. Report, 1850; Acts of 1850-1, 13-15.

² Am. Alm., 1858, 258.

³ "Nearly all the State debt was contracted in aid of internal improvements, directly or indirectly. Some of the efforts to give such aid have resulted disastrously, and in others the agents of the State wasted the funds."—Hunt's Year-Book, 1871, 161.

⁴ In 1869 it was stated that about one half of the literary fund had been swept away by the war.—American Year-Book, 424.

CHAPTER X.

THE SURPLUS IN THE STATES.

OHIO RECEIVED \$2,007,260.36.

THE deposit was accepted December 19, 1836.¹ By the act of March 28, 1837, it was directed that the surplus be divided among the counties in proportion to the male population above twenty-one years of age. It was to be loaned to internal improvement companies on good security, or the commissioners might buy bank stock, or loan to the county a sum not exceeding \$10,000 for public buildings. These loans were to be at six per cent., payable semi-annually in advance. Loans might also be extended to the State at six per cent. per annum. If the counties failed to take all the money, the auditor might loan the rest to the canal fund at six per cent. interest, and in that case he must pay over to the school authorities five per cent. yearly. Further, all interest accruing on these county loans up to five per cent. was to be paid for schools in the counties according to the proportion of children of school age therein. Every January the commissioners must publish full particulars of their acts in some county newspaper of general circulation. No loans were to fall due later than January, 1850, at which time the principal should be subject to the order of the State Treasurer to pay the canal debt, unless some other disposition were made of it by the Legislature. If the State should make this use of the money, there must be a provision that five per cent. interest on the sum be distributed yearly among the counties for the support of common schools. The fund must be reapportioned in 1839, and at every subsequent enumeration.

Any amount of income exceeding the five per cent. to be paid

¹ 35 Statutes, 4.

to schools was to belong to the county.¹ This provision was altered March 19, 1838, so that this excess should be invested profitably for a school fund, internal improvements, or for building academies.²

There was a further provision in the first act that the counties should be held liable for the five per cent. for schools, any deficiency to be made up by taxation. This was repealed March 27, 1841,³ and immediately re-enacted, making the deficiency chargeable on the grand levy.⁴

March 13, 1843, an act to pay domestic creditors of the State was passed. It empowered the commissioners of the canal fund to borrow on the credit of the State a sum not exceeding \$1,500,000, to pay the amounts due the contractors of public works; bonds were to be issued for this purpose, and to redeem these bonds the surplus revenue was appropriated with some other resources.

The commissioners were to pay five per cent. to the school fund, and one per cent. to the counties on the amount paid in by the counties.⁵

These bonds were known as the seven-per-cent. loan, payable January 1, 1852. Besides being pledged to redeem this debt, the surplus was also pledged for the redemption of the turnpike bonds, payable in 1846.⁶ It is also mentioned somewhat later as applicable to the payment of the debt in general.⁷ Under this act the counties began to pay in the surplus, but quite slowly at first.

¹ 35 Statutes, 97. Statutes of Ohio, 1841, 881-9. Here are quoted various amendments. This volume contains every thing to date.

² 36 Statutes, 79.

³ 39 Statutes, 41; St. of O., 1841, *ibid*.

⁴ St. of O., 1841, 891.

⁵ 41 Statutes, 80. A full list of the laws about the surplus is given in the Appendix to Swan's Rev. Stat., Derby's Ed., 1854, p. 1043. The last clause mentioned above doubtless means that the counties were to receive one per cent. on the sums paid in before they were due (*i. e.*, before January, 1850), the interest to stop at that date. The text of the law is inaccessible at the present, or I should have verified the reference.

⁶ Aud. Report, 1 Bankers' Mag., 438 (1846).

⁷ 5 Bankers' Mag., 203.

After the money became due, which was on January 1, 1850, "except with certain balances not due to the State till 1852," the counties must pay 6 per cent. on what remained in their hands.¹ \$839,012.68 had been paid in up to November 15, 1849. In the year ending November 15, 1852, \$279,274.96 was paid in.² By comparing the reports of different years it seems probable that a little more than \$1,900,000 had been paid by November 15, 1855, or, according to other estimates, about \$1,700,000.³

During 1856, the amount paid in was about equal to the amount of the previous year, but immediately afterwards the stream dries up very fast, not merely from the fact that most had been paid in, but because the counties did not pay. Twenty-five counties were delinquent as late as 1862, when a tax was authorized to be levied to pay these dues. They could be discharged in certificates of the State funded debt, and the payment credited to the sinking fund.⁴

The money still failed to come in, and by the act of April, 7, 1869, the deficiency, when collected, was to be applied to any fund in the counties that the people thought best.⁵

Now that the history of the surplus as a loan to the counties has been detailed, it only remains to pick up the thread of its relation to the school fund, and then briefly to see what was done with the money. Besides the provisions of the acts previously quoted the school law of 1838 appropriated the interest of the surplus to schools,⁶ and the act of March 24, 1851, repeated

¹ Am. Alm., 1851, 277. Under this arrangement it happened in cases of delay that the State paid 7 per cent. on her bonds, while the counties only paid 6 for keeping the money which would pay the bonds.—Auditor's Rep., Acts 1849-50, 16.

² Am. Alm., 1854, 296-7. The almanac during these years gives the annual returns.

³ Perhaps the latter is the safer figure, for in that year the interest on the surplus amounted to \$17,280.01, whence it would appear that about \$300,000 had not been paid in. The first figure was calculated from not over-clear returns in the American Almanac.

⁴ Act of April 23d, 59 Stat., 59; 2 Rev. Stat., 1880, 2103.

⁵ 66 Statutes, 45. 2 Rev. Stat., 1880, 2105.

⁶ Am. Alm., 1839, 191.

the clause and added to the common-school fund "the balance of the Surplus Revenue Fund."¹ This last phrase it has been impossible to interpret exactly, for in the school reports the surplus is not mentioned, as the common school fund, of which it is a part, is reported as a unit. It may mean the surplus left after paying the turnpike bonds and 7 per cent. stock of 1851.

The State borrowed some of the money from the counties; *e. g.*, in 1840, there was such a loan of \$63,332.68 from three counties, while the auditor managed the funds of four more counties.²

The use made of the principal is well illustrated by the following extract from an auditor's report:

APPROPRIATION OF THE SURPLUS REVENUE.

| | |
|---|-----------------------------------|
| Appropriated for the redemption of the turnpike bonds, | \$337,369.85 |
| Appropriated for the purchase of State bonds, 7 per cent. stock, | 208,312.08 |
| Appropriated for the payment of the faith and credit bonds, to be refunded from the sinking fund, | 92,742.90 |
| Total repaid by the counties, | \$839,012.68 |
| Amount loaned to the State, | 16,806.43 |
| Balance due by the counties Nov. 15, 1849, | 1,151,441.23 |
| | <hr/> \$2,007,260.34 ³ |

The internal improvements of Ohio were far more successful than those of other States, because her undertakings were more within her power. In December, 1846, Governor Barry said the internal improvements were fully completed. They were monuments of early wisdom and public spirit, and had contributed to the development of the country.⁴ So the application of the surplus to paying part of the improvement debt was a payment for value received, and not as with so many States merely sinking the

¹ Am. Alm., 1853, 297. Repeated in succeeding issues.

² 2 Hazard, 102.

³ Laws, 1849-50, 16.

⁴ 1 Bankers' Mag., 433.

money in redeeming a vast debt with nothing to show for it. Yet, notwithstanding the favorable words of Governor Barry, the constitution of 1851 prohibited the State from ever contracting debt for internal improvements and from lending its credit.¹

PENNSYLVANIA RECEIVED \$2,867,514.78.

In Pennsylvania, in 1836 as in 1883,² there was a party in favor of distribution. On June 16, 1836, a resolution was passed by the Assembly deprecating the investment of the surplus in State stocks, and declaring that the most safe and Federal disposition which could be made of the surplus revenue would be its apportionment among the several States.³

The deposit was accepted Dec. 22, 1836. So much of the money as should be paid in draft or drafts on any bank or banks in Pennsylvania was to remain where it was then, or where it might be deposited Jan. 1, 1837, until further disposition of it by law.⁴ A temporary measure in reference to the deposit was passed Feb. 27, 1837.⁵

The parts in the Girard Bank, the Moyamensing Bank, and the Merchants' and Manufacturers' Bank of Pittsburg were to stay there, paying five per cent. interest; the rest was to go into the Bank of Pennsylvania and the Bank of Philadelphia, and to pay six per cent., provided the banks accepted the charge. The

¹ Am. Alm., 1852, 295.

² One of the resolutions adopted by the Republican State Convention of Pennsylvania, July 11, 1883, reads as follows: "Any surplus in the public treasury arising from a redundant revenue should, after paying the national debt as fast as its conditions permit, be distributed from time to time to the several States upon the basis of population, to relieve them from the burdens of local taxation and provide means for the education of their children."—See "The 'Surplus' Question," a little pamphlet which may be obtained of *The American*, Philadelphia.

³ Acts of 1835-6, 853.

⁴ Acts of 1836-7 (the third act of the session).

⁵ Gov. Ritner, in his message, recommended that the surplus falling to Pennsylvania should be forthwith and immediately applied to the payment of so much of the State's debt as it would cover.—*Boston Traveller* in *Boston Recorder*, Dec. 23, 1836. By this means a non-interest-bearing debt would in so far have been substituted for the interest-bearing debt.

interest of these moneys as paid by the banks was to be applied to the fund for common schools.¹

A month before the general act, however, the treasurer was authorized by a resolution to take a sum not exceeding \$150,000 from the surplus revenue to make up the deficiency in the semi-annual payment of interest on the State debt, due Feb. 1, 1837.²

By a special resolution, passed April 7, 1837, \$500,000 of the surplus was appropriated as an increase on the annual grant of \$200,000 "to be applied by the several districts either for buildings, repairing or purchasing school-houses, or for education, as they may deem best." This additional appropriation increased the average school season, which was three months and twelve days in 1836, to five months and eight days.³

Besides the act and two resolutions that have been described, Pennsylvania passed no general law⁴ touching the surplus revenue, but considered the money outwardly in the light of a non-interest-bearing loan to the State immediately available for any wants. It is generally said that Pennsylvania used the money for schools and internal improvements.⁵ This is true enough, but it is more accurate to say that most of the surplus, especially that part not used for education, was just put into the State treasury and drawn upon for all kinds of uses. This view is derived from

¹ Acts, 1836-7, 24.

² Acts, 1836-7, 395.

³ School Report, March, 1840; 2 Hazard, 226.

⁴ This becomes apparent in the course of the narrative, but the following may be quoted. "Pennsylvania, by a prudent foresight of her executive, has escaped from the disappointment, which must be severally felt by her sister States, having made no disposition of her share."—Quoted with date, May 10, 1837, in 1 Financial Register, 151.

⁵ "The appropriations for education are very liberal—\$500,000 from the State's share of the surplus revenue, and \$200,000 from the bonus given for the charter of the U. S. Bank. The residue of the surplus revenue is applied to the continuance of internal improvement, and the payment of the State debt."—*New Yorker*, April 15, 1837. *The American*, of Philadelphia, Dec. 22, 1883, contained a short notice of the surplus in Pennsylvania, and the *Philadelphia Press* of Dec. 20, or 21, 1883, contains a more extended account taken from sources independent of those used in the text. The conclusions are that "it was used for two great objects—public improvements and public schools."

the treasurer's report for 1837. In it (p. 7) the surplus revenue, \$2,867,514.78, is included among the receipts for 1837, as well as in the statement of debt (p. 5). Then it is said that "after deducting several drafts for the use of the State treasury, drawn during the fiscal year," the balance on deposit in these three banks was \$2,220,135.74 (p. 9); this now is exactly the treasury balance, for the amount paid in for the year ending Oct. 31, 1837, including balance on hand the 31st Oct., 1836, was . \$6,394,076.00
 The payments for the same period were . 4,173,940.26

Leaving a balance of \$2,220,135.74 (p. 8).

For some years previous to this time the revenue had not met the ordinary and extraordinary expenditures; from 1830-1835 large sums were received from premiums on loans for internal improvements and bonuses on bank charters, and by these the interest on the public debt and the large local appropriations were met annually. "From 1835 till the present time (says the report, p. 12) the deficiency has been met by premiums on bank charters, and the surplus revenue received from the United States." These extracts show clearly how the surplus was regarded and used.

In reference to the use of the interest of the surplus while on deposit, F. H. Burrowes, Superintendent of Schools reported as follows: "By the fourth section of the act of the 27th of February, 1857, the interest of the surplus revenue received by this State, is 'ordered to be applied to the fund for the support of common schools within this commonwealth.' The sum already received into the treasury amounts to \$100,000 and will be considerably increased before the principal is expended for internal improvements or other purposes. This money has not been embraced in the estimates of the State Treasurer, Governor, or any other officer, and has not, therefore, been calculated on for any other public use." Doubts had been entertained by the treasurer, and auditor-general whether the Legislature did not mean to have the interest added to the annual State appropriation; but the superintendent thought that the use of the word *fund* determined

that the interest was to be added to the principal of the school fund.¹

The interest on the deposits for the year ending October 31, 1838, was \$137,668.86.²

The school system of Pennsylvania was helped by the surplus revenue to the extent probably of about \$800,000. It could not have drawn the interest more than two or three years, for in 1840 the treasurer of the State called attention to an annual deficit of \$1,000,000 and upwards, in the ordinary receipts and expenditures of the State.³

The surplus could not stand such a drain long and it had disappeared before 1840, as these deficits were made up by new loans.

The aid that the cause of education received from the surplus was timely and very helpful. A school system had been organized in 1834, and what was needed most were accommodations and means to set it in operation. The surplus supplied this need at a time when it would have been met but slowly by the people. For at that time they were reluctant to endure taxation, much preferring running into debt, and a little later they were heavily weighted with taxes imposed on account of the extravagant improvement system. Not many years after this their appropriations fell too low to make what was given of much service.⁴

Pennsylvania's experience with internal improvements was a hard one, and brought the credit of the State under a cloud for some years. The State was not only deeply involved in debt but a great deal of money was wasted and thrown away. This is practically acknowledged by Gov. Porter, who favored the system in general.⁵

¹ 4th Ann. Report, 1837, 21-2.

² 55 Niles, 200.

³ 2 Hazard, 91.

⁴ Townsend Haines, Supt. of Pub. Instruction 1848-49, said: "The appropriation now made by the State is literally squandered." He mentions several reasons, among them that the amount was too small to be effectual, and that the people were dispirited by grievous taxation for the State debt.—16th Ann. Report, 1849, 16.

⁵ "On the whole, though some works have been undertaken of doubtful policy at the time, though large sums of money have been expended on some which ought never to have been commenced, and though the cost of those of

"The total cost to the State of the Pennsylvania Canal and branches" between 1826 to 1843 was \$28,616,375.01. In 1843 the State owed a net amount of \$41,581,281.99. By 1844 the people had become alarmed at the prospect and declared themselves in favor of stopping short and selling the public works. In 1845 the main line of the public works was offered for sale for \$20,000,000, but there was nobody to buy. In 1858 the same property was sold to the Pennsylvania Railroad Company for \$7,500,000.¹ These figures show the losses on invested capital. The introduction of railroads lessened the value of the greatest undertakings in the State, and this unavoidable circumstance must be borne in mind in passing judgment on the internal improvement experience.

RHODE ISLAND RECEIVED \$382,335.30.

The Legislature of Rhode Island accepted the surplus, Nov. 4, 1836, and the next day passed a law providing for its deposit in banks that had complied with the bank laws. These banks must pay five per cent. interest thereon. The interest was to be apportioned according to the act of 1828, and devoted to the support of public schools.²

This appropriation of the interest was repeated in the school law of 1839, while the State was to add thereto enough to make \$25,000, which should be the annual appropriation to schools.³

The same year the act regulating the investment of the principal was so amended that whatever deposits were voluntarily given up by the banks might be loaned to the towns at five per cent. annual interest. The sum loaned was not to exceed the share that each town would receive on the ratio of population, and the loan "must be used for the purposes of education simply."⁴ By this the schools received a double benefit.

unquestioned utility has been far greater than it would be, if the same work was to be done under all the advantages of our present experience, we have yet perhaps as much cause to be surprised at our good as at our ill fortune."—*Message*, Jan., 1840 ; 2 Hazard, 42.

¹ Penn. Finances, 25-7.

² Acts since 1835, 913-4.

³ Stockwell, 51.

⁴ Acts since 1837, 1054.

This act was still further amended by authorizing the commissioners to invest such money as was given back by banks in town and city bonds having not more than five years to run and paying at least five per cent. annually. The bonds were to contain a condition that the city must pay them within thirty days, if the United States should call for the money.¹

Jan. 7, 1840, the State borrowed \$29,526.49 of the fund to pay the remainder of the State prison debt.² In June, 1842, an act was passed to draw out \$50,000 to pay for the insurrection, to be refunded as soon as may be, with interest at five per cent.³ In Oct. \$32,000 more was voted.⁴

The cost of the "Dorr-war" was met by the use of a portion of the deposit fund." The expense is variously stated.⁵

The following is from a report of May, 1846 :

| | | | | |
|---|---|---|---|----------------|
| Invested in bank and other security | . | . | . | \$229,567.84 |
| In the hands of the commissioners | . | . | . | 48.18 |
| Borrowed by the State, Jan. 7, 1840, to pay | | | | |
| the balance of the State prison debt | . | . | | 29,526.49 |
| Borrowed by State, June, 1842, for State purposes | | | | 50,000.00 |
| " " " Oct., 1842, " " " | . | | | 28,192.72 |
| " " " Jan., 1843, " " " | . | | | 25,000.00 |
| " " " June, 1843, " " " | . | | | 10,000.00 |
| " " " May, 1845, " " " | . | | | 10,000.00 |
| | | | | \$382,335.23 ° |
| Total borrowed by the State, \$152,719.21. ⁷ | | | | |

¹ Act, June 26, 1841 ; Acts since Sess., Jan., 1840, 2055.

² \$35,000 was voted (letter from Supt. of Ed., T. B. Stockwell).

³ Acts of June, 1842, 8. ⁴ Acts of Oct., 1842, 85; only \$28,192.72 were taken.

⁵ In Mr. E. R. Potter's Report to the General Assembly, June 23, 1843, this sum is stated at \$102,949.63 (Am. Alm., 1844, 219), but in 64 Niles, 296, is the statement : " By a report of the Finance Committee in the middle of 1843, it appears that the expense to the State Government of suppressing Dorr's insurrection was \$114,949. This was met by the use of a portion of the ' deposit fund.' " Full reports of the Loan Commissioners up to date may be found in the Acts of June, 1841, 46, and again in the May Acts of 1843, p. 8.

⁶ Am. Alm., 1847, 228.

⁷ " This is sometimes spoken of as a debt " of the State.—Am. Alm., 1849, 236.

In June, 1848, the treasurer was authorized by a resolution to borrow \$16,000 of the Bank of North America, "to prevent using up any more of the surplus revenue, which by former laws had been specially devoted to schools."¹

This policy was not kept up, however, for in Jan., 1849, \$41,526.67 was drawn "to pay a note at bank."²

Accordingly, in 1852, the account of the surplus stood as follows :

| | |
|---|--------------|
| Loaned to cities and towns on bond | \$70,402.60 |
| Invested in bank stock | 117,638.67 |
| Used by the State for prison and Dorr war | 194,245.88 |
| Not funded | 48.08 |
| | <hr/> |
| | \$382,335.23 |

The State owed no debt save what had been borrowed from the "deposit fund."³

"In 1857, \$32,500 of the fund which had been loaned to some of the towns was paid to the treasurer and put by him into the general fund, thus making a grand total of \$226,793.96, which was taken out of the deposit fund proper.

"In 1858 Rhode Island received from the U. S. Government \$4,276.03 on account of sales of the public lands. This amount was added by vote of the General Assembly to the deposit fund account,⁴ which made the grand amount due from the State \$231,069.99, leaving a balance still invested in loans and stocks as a fund. In Jan., 1859, the General Assembly voted to transfer this balance of \$155,541.27 to the permanent school fund. In 1860 the sum of \$11,191.80 surplus revenue of the State was directed to be added to the permanent school fund on account of

¹ Am. Alm., 1849, 240. The State already owed \$25,000 on note to the bank.

² \$45,000 was voted—(Mr. Stockwell). This money was withdrawn doubtless to pay the very note which was given for a loan to save drawing from the surplus.—*Cf.* note 1.

³ Am. Alm., 1853, 244-5.

⁴ Accordingly the deposit fund is stated as amounting to \$386,611.33 in Am. Alm., 1859, 247, and in all later reports.

the amount of the deposit fund due that fund. No transfer of funds has since been made, so that the State stands ostensibly as a debtor to the school fund to the amount of \$219,878.19."¹

The State has not formally paid interest on this loan but as the State appropriation to schools is far greater than this interest, it is fair to say that the interest is included in the appropriation. If the State transferred the interest formally, the appropriation would doubtless be just so much less. At the same time the intent of the original laws was that the money should constitute a fund, and if borrowed should be repaid. The State appropriation was \$25,000 in 1839 ; it was raised to \$35,000 in 1851, to \$50,000 in 1854, to \$70,000 in 1868, to \$90,000 in 1869, and has just been raised to \$120,000.

The regulation about loaning the surplus to towns has been so far changed as to direct that the shares of the towns should be proportioned to the number of children in them under fifteen years of age. The commissioners of the fund who managed it are the Governor, the Secretary of State, and the General Treasurer.²

¹ For these particulars I am indebted to the kindness of Mr. Thos. B. Stockwell, the State Supt. of Public Instruction ; other facts that he sent me threw light on some obscure points in the account of R. I.

² Revised Statutes, title 3, ch. 14. School Laws, v. As will be seen in the report above, dated 1852, acts later than that of 1837, allowed the commissioners to invest the money "in good bank stock."

CHAPTER XI.

THE SURPLUS IN THE STATES.

SOUTH CAROLINA RECEIVED \$1,051,422.

THE Legislature accepted the share of the surplus that fell to the State, December 21, 1836, and ordained that it be deposited in the Bank of South Carolina, to the credit of the State, not as a part of the capital, but "to be banked upon and employed according to the usages of said bank."¹

The day before, by a resolution, the comptroller-general had been authorized to subscribe ten thousand shares, or \$1,000,000, to the Louisville, Cincinnati, and Charleston Railroad,² to be paid out of the surplus revenue in instalments, as the other stockholders paid. By the charter, the \$1,000,000 could be called for by the company in instalments of \$5 per share, or \$50,000, every sixty days.³

By the act of December 20, 1837, the fourth instalment was to be paid to the L., C., and C. Railroad Company to the credit of instalments to become due from the State.⁴

The ten thousand shares were subscribed for in 1837, and one

¹ Acts of 1836, 45. Governor Pierce M. Butler, in his message, after this suggested that a portion of the surplus be used in erecting monuments on the Revolutionary battle grounds (Acts and Resolutions, 1837, p. 5 of Message). Another proposal: a South Carolinian, premising that the surplus revenue was the planters' money refunded by the Government, proposed that the State lend it on negro security, to save the planters from having to sell their negroes; to make the security valid let the banks make the same fund into an insurance fund to insure negroes (51 Niles, 257).

² On this great railroad bank see the *Globe*, September 7, 1836; January 2d; and January 14, 1837; 2 Financial Register, 96, 318, 351. The notices in Niles are indexed and are therefore omitted here.

³ Resolutions, 1836, 129; Report of Pres. of Bank, 1843, 33

⁴ Acts, 1837, 1836.

instalment of \$50,000 was paid that year. In 1838 another instalment was paid, which left then \$951,422.09 "on deposit in the Bank of South Carolina subject to the payment of the remaining instalments on said shares when called for, and in the meantime to be used as other deposits."¹ By October 1, 1839, \$50,000 more had been paid.² The rest may best be told in the words of "The Report of the Special Joint Committee Appointed to Examine the Bank of South Carolina" on the sinking fund. "In 1840 the six-per-cent. stock, issued under the act of 1820, became redeemable and, before the 1st of October of that year, the sum of \$798,795.96 was redeemed and debited to this fund [*i. e.*, the sinking fund], which was thereby reduced to \$57,806. It was then, by the direction of the comptroller-general, credited with the sum of \$651,422.09, part of the surplus revenue received from the Federal Government, and deposited in the bank.

"By an act passed in 1836, before this money was received, it was directed that the instalments, as they should become due on shares to be subscribed for by the State to the L., C., and C. Railroad Company, should be paid out of it, and accordingly the first four instalments were so paid; but in 1839 when it was deemed expedient for the State to make an immediate advance of twelve instalments, amounting to \$600,000, the comptroller-general was directed to issue and deliver to the railroad company \$600,000 of six-per-cent. stock, instead of requiring that sum to be paid by the bank, and by the same act the interest on the said stock was made payable out of the sinking fund; and the capital and profits of the bank and the balance of the surplus revenue beyond the amount required to pay the four instalments of the subscription to the railroad not advanced, were pledged for the payment of the interest and principal of said stock. The amount of surplus revenue then on deposit was \$851,422.09, of which \$200,000 would be required to pay the four instalments not yet advanced, leaving the sum of \$651,422.09, which was carried to the credit of the

¹ Report of Comptroller Hayne; Acts and Res., 1838, 70; and Table G, Bank Report, *ibid.*

² Table F, Bank Report, 20, in Comptroller's Report, 1839.

sinking fund as above mentioned.”¹ . . . The fund later “was credited in 1844 with a balance of \$200,000 surplus revenue, which was, by an act passed in 1843,² directed to be transferred to this fund.”¹ Besides the six-per-cent. stock of 1839, the five-per-cent. stock of 1826 was to be extinguished by the sinking fund. The last payment on the five-per-cent. stock was made in April, 1847, and the last on the six-per-cent. stock in March, 1856.³

While the surplus was deposited in the State bank the profits of the bank, arising from the interest on the same, amounted by October 1, 1843, to \$356,221.10.⁴

In the statements of the public debt of South Carolina the comptroller mentioned the \$1,051,422.09 surplus revenue annually down to 1859.⁵

Though the great Louisville, Cincinnati, and Charlestown Railroad was never built, the investment of the State seems to have been a good one. The new company bought the South Carolina Railroad from Charleston to Hamburg, 135½ miles long, which cost \$1,750,000, for \$2,400,000 of L., C., and C. stock.⁶ Besides its subscription the State guaranteed for the railroad a loan of two million dollars.⁷ After buying the South Carolina road the L., C., and C. Co. almost reconstructed it, and laid out the branch road to Columbia, 128 miles in length, which was opened in November, 1840. The railroad bank had a capital of \$1,500,000, on which in

¹ Reports and Resolutions of 1849, p. 100. In Rep'ts and Res., 1847, p. 36, is a report of the president and directors of the Bank of South Carolina, and another is to be found in Rep'ts and Res., 1840, 32. These reports agree thoroughly with the above, and illustrate the methods of accounting. The surplus was made a special account.

² Dec., 1843.

³ Letter from the State Treasurer.

⁴ Report of Pres. of the Bank, 1843, p. 43.

⁵ Reports *passim*; also Am. Alm., 1853-61, Art., South Carolina. In 1843 Governor Hammond said: “It is highly probable the State will never be called on to refund the surplus revenue, though her liability for it should never be forgotten in an estimate of her debt.”—Am. Alm., 1845, 252.

⁶ 2 McCulloch, Geo., Dict., 831.

⁷ 55 Niles, 40.

the first part of 1839 the profits were at the rate of eight per cent. per annum.¹ Then, after the big scheme fell through, the different branches in the State were consolidated in 1844 and called the South Carolina Railroad Company. This road did a profitable business up to the time of the war, but has since been unfortunate.²

In November, 1846, Governor Aiken said: "The State has hitherto exhibited a wise policy in investing the greater part of the surplus revenue in the South Carolina Railroad." He pronounced it a valuable enterprise which had thus been encouraged, was then in successful operation, and which promised to be a source of wealth.³

The State owned \$641,000 of stock in this company as late as October 1853.⁴

From the facts at hand it seems on the whole that South Carolina stands very well among those States that invested the surplus.

TENNESSEE RECEIVED \$1,433,757.58.⁵

The surplus was accepted October 24, 1836, and directed to be deposited in the Union and Planters' banks of Tennessee under a special contract by which they were to pay the State five per cent.

¹ Hayne's Report, 56 Niles, 325.

² The annual dividends between 1844-58 were 5, 5½, 5½, 5.83, 2½, 4, 6, 7, 7, 8, 8½, 8½, 10, 8, 8½ (Poor's Manual, 1869-70, 262). The expense of rebuilding and equipping the road after the war loaded it with a large floating debt. It became embarrassed, failed to pay the interest on its bonds, and was put into the hands of a receiver, September, 1878. It was sold under foreclosure, July 28, 1881, and reorganized as the "South Carolina R. R. Co.," November 1, 1881 (Poor's Manual, 1883, 453).

³ 1 Bankers' Mag., 428.

⁴ 8 Bankers' Mag., 625.

⁵ This was the share that fell to Tennessee, but whenever the amount is mentioned it is stated as \$1,353,209. The cause of this discrepancy, I have not been able to find out. In the report of the Secretary of the Treasury presented at the meeting of the extra session of Congress in 1837, it was stated that about \$1,165,575 of the transfers of the July instalment had not been receipted for or received by the States. It is barely possible that the missing eighty thousand dollars falling to Tennessee is to be included in this sum, and that it was not recovered.

interest, payable semi-annually. All the interest that accrued was to be received by the treasurer and charged to him by the comptroller as part of the State revenue, subject to the comptroller's warrants to meet all appropriations chargeable on said fund by law. The residue left was to be loaned to the Union Bank.¹ The Farmers' and Merchants' Bank of Memphis would be allowed part of the surplus revenue if it agreed to the contract, which it did.

\$707,353 of the surplus was deposited with the Union Bank, and "was considered available for capital, as it was not likely to be suddenly recalled."² The rest was deposited in the Planters' and Memphis banks under the same condition.

January 19, 1838, was passed "an act to establish a State bank, to raise a fund for internal improvements, and to aid in the establishment of a system of education." The main provisions were that a State bank should be set up with a capital of five million dollars, made up of the surplus revenue and the unexpended interest thereon, the school fund, the proceeds of the sales of the Ocoa (or Ocoee) lands, and of such additional sums to be borrowed as would be required to complete the five million dollars. The fourth instalment, if it was received, was to be paid on the stock in addition to the five million dollars.

The surplus was to be paid over from the deposit banks in two yearly instalments, beginning Jan. 1, 1839, in specie or in funds immediately convertible into specie. Of the dividends of this bank \$100,000 was annually to be set apart for common schools, to be applied as the General Assembly might direct. Further, \$18,000 more was annually to be appropriated for county academies. The bank also was to pay the interest on the internal improvement bonds. Under this head \$650,000 each was appropriated to the construction of the Hiwassee and the Charleston and Cincinnati Railroads, to be paid by instalments.³

¹ Laws of Called Session, 1839, 9.

² See Trotter, 258 and 412.

³ Laws, 1837-8, 153-66; 1 Financial Reg., 222; Trotter, 261. The Am. Alm., 1845, 270, gives a history of school legislation up to this law.

The instalments to the L., C., and C. Railroad were to be five per cent., fifteen per cent., fifteen per cent., five per cent., and so on of the total subscription. The instalments were to fall due as soon as the stockholders had

Next in the comptroller's report of Oct., 1839, the following statement is found: "The first instalment of one half the U. S. revenue deposits in the Union, Planters', and Memphis banks has been promptly paid by the banks respectively, amounting in all to \$674,837.33.¹ The whole amount of the school fund in the treasury, and liable to distribution on the first Monday of Jan. last, was only \$15,551.46, and this sum has been disbursed. At the close of the first bank year the annual dividend required to be made by the Bank of Tennessee, of \$100,000 for the use of common schools, and of \$18,000 for the use of county academies, was duly set apart by the directors and placed in the treasury. The common-school portion has been distributed generally to the counties in their due proportions."² This appropriation of \$100,000 annually of the profits of the bank might with no great stretch of the fancy be considered as the appropriation of the interest of the surplus for education, for \$100,000 less the interest on the school fund, which was invested in the bank,³ is about seven per cent. on the surplus.⁴

paid in equal amounts. To the Hiwassee road the State was to subscribe as much as the stockholders paid in, provided it was not more than \$650,000. The Hiwassee road was to go from Calhoun on the Hiwassee to Knoxville.

¹ In the cashier's report (1 Hazard, 361) the sum is stated at \$678,373.12, and put to the credit of the bank as capital stock. This discrepancy is probably accounted for by the method of payment. \$150,000 was paid in silver, and the balance in post notes of the banks payable in Philadelphia at 60, 90, and 120 days, adding interest.—Report of Pres. of Bank, Oct., 1839; 1 Hazard, 292.

² 1 Hazard, 306.

³ July 1, 1840, the capital of the bank was made up of:

| | |
|-------------------------------|----------------|
| State bonds | \$1,000,000.00 |
| School fund | 115,528.46 |
| School fund (Ocoee) | 587,051.90 |
| Surplus revenue | 1,353,209.55 |

\$3,055,789.91

Cashier's statement; 3 Hazard, 121.

⁴ The revenue of the school fund expended from March 1, 1836, till Oct. 1, 1837, was \$17,705.26, which is about \$11,000 a year. \$100,000 less this income equals \$89,000, or nearly seven per cent. on the surplus; or to present the same in a different way, Oct. 1, 1841, the capital of the bank was made up of the

But whatever views may be accepted on this, point it must be said that the law, though well intended, was a failure in nearly every direction.¹ It is true that education received some help but

| | |
|--|----------------|
| Proceeds of the sales of six-per-cent. State bonds | \$1,000,000.00 |
| School fund collected, and proceeds of the sale of the Ocoee lands | 769,537.31 |
| U. S. surplus revenue | 1,353,209.55 |
| | <hr/> |
| | \$3,122,746.86 |

(5 Hazard, 267.) Now the \$118,000 appropriated from the net profits on this capital is almost exactly six per cent. on the whole school fund and surplus revenue.

¹ "The benefits expected to be derived from the act of Jan. 19, 1838, have not been realized. The bank has failed to effect the amelioration in our pecuniary affairs that its authors anticipated, and the expectations of the public have been sadly disappointed; nor has the operation of the act been more salutary and successful in relation to other interests it was intended to foster. There is, probably, not another law to be found among our statutes that more signally failed to fulfil the wishes of the Legislature, or one that requires more thorough reversion and amendment in order that it may effectuate the purposes for which it was designed." The State by the provisions of the act of Jan. 19, 1838, was to issue bonds in subscription of stock in improvement companies, so soon as individuals subscribed for the other half and deposited 15 per cent. of the subscription (Trotter, 262). These State bonds had ruinously depreciated and great losses threatened those contractors who engaged to receive the bonds of the State in payment of stock or for labor, unless the Legislature provided for the emergency. The action of the school system had not been attended with very satisfactory results.—Gov. Cannon's message, Oct., 1839; 1 Hazard, 296; partly in 57 Niles, 137. Two years later Gov. Jones in his inaugural message, Oct., 1841, pronounced the improvement laws of 1837 "impolitic, unsafe, and wholly inadequate to accomplish the objects contemplated." They were "loose and unguarded, opening the door by which fraud and injustice might be perpetrated on the State with the greatest facility." Some improvements had been made in the law, but there was room for more. The State Constitution provided that the common school moneys belonging to the State, should be a perpetual fund, the principal never to be diminished by appropriation, the interest to go to education. The present system was very imperfect, but its influence had been salutary. The law was "vague, indefinite, and complicated," and its revision was demanded by the best interests of the State.—5 Hazard, 296-7.

To cite a specific case of unsuccessful improvements. The Hiwassee Railroad, designed to extend from Knoxville to the Western Atlantic R.R., at a point

not so much as ought to have been received, and the provisions of the law, as a whole, ended in consuming a good deal of the principal of the school fund, as we shall see. Nor must it be understood that the surplus was considered as a part of the principal of the school fund ; on the other hand, it is mentioned during these years as a resource of the State for paying its debt, in case the United States did not recall it.¹

All of this generous appropriation, however, though regularly paid by the bank, apparently was not expended for schools. The following items are found in the financial report of the State for the year ending in Oct., 1846.

RECEIPTS OF THE STATE.

| | | |
|--------------------------------------|-----------|---------------------|
| Bank of Tennessee, for schools . . . | \$100,000 | |
| “ “ “ academies . . . | 18,000 | |
| | | <u>\$118,000.00</u> |

EXPENDITURES OF THE STATE.

| | | |
|----------------------------------|-------------|--------------------|
| For common schools | \$65,083.78 | |
| “ academies | 11,931.36 | |
| | | <u>\$77,015.14</u> |
| Leaving a remainder of | | <u>\$40,984.86</u> |

near the Tennessee line, about 100 miles, was begun in 1826 ; about 70 miles were graded at a cost of \$1,000,000, when the company had to stop on account of financial difficulties. Strong efforts were made to resume it, but without success.—*Am. Alm.*, 1849, 290.

The Louisville, Cincinnati, and Charleston Co. had abandoned work as far as Tenn. was concerned before Oct., 1841 (5 Hazard, 347). And in 1844 the company surrendered \$32,000 of 5 per-cent.-improvement bonds to the State which were cancelled (67 Niles, 340). The total amount issued for this road was \$560,000.

These bonds could be withdrawn under certain conditions (63 Niles, 119), and the above is doubtless a case of withdrawal.

Considerably later than this, in 1849, Gov. N. S. Brown called the improvement act of 1837-8 “ an indiscriminate policy, that if persevered in would bankrupt any state in the world.” “ The tendency was to construct any and every sort of road without reference to its importance or value.”—4 *Bankers' Mag.*, 184-6.

¹ 1841, 5 Hazard, 274 ; 1843, 64 Niles, 245 ; 1853, *Am. Statist. Ann.*, 1854, 289.

of the disposal of which nothing is said.¹ Judging from the practice of the neighboring States it probably went into the general fund.

We now come to the time when the effects of the law of Jan. 19, 1838, had begun to bear down on the bank which it had created. In 1849 Gov. Neil S. Brown² called attention to the fact that the fixed charges on the bank threatened to bankrupt it, though it had been profitably managed, and to consume the school fund as well as the surplus revenue. This finally came to pass. In 1865 Gov. Brownlow declared the bank hopelessly insolvent.

Feb. 16, 1866, an act was passed to wind up and settle the business of the bank. After the assignment of the assets the first fund to be secured was the \$1,500,000 of school fund.⁴

The conclusion in regard to the surplus is that it was used up either in providing for the general expenses of the State or in

¹ 1 Bankers' Mag., 365.

² In general he said: The bank was suffering a constant loss of capital. It had made seven per cent. since its organization, but by State regulation it had to meet imposed liabilities that would require a profit of ten or eleven per cent.: *e. g.*, the real capital of the bank did not exceed 2½ million; seven per cent. of that was \$175,000 per year; but in 1847 the stated liabilities amounted to \$271,712.87. Here then was a deficit of \$96,712.87 to be taken from the capital. Further, no account was taken of the increased liabilities and current drain of capital. The bank began July 1, 1838, with \$3,226,976.82 capital, and by July 1, 1849, \$800,000 had been lost, it was believed. At that rate the whole capital would be gone in sixteen years. [This prophecy was almost exactly fulfilled as to time. Note the date given in the text.] The bank ought to be either discontinued or disencumbered. Under the existing policy the dissipation of the capital must result before long. "That capital, as is well known, embraces the common-school fund and the surplus revenue—if the latter should ever be called for, it would present us a melancholy alternative,—while there is little probability that the former would ever be supplied, however solemnly it has been pledged by the Constitution, and however ardently it has been cherished by the friends of education."—4 Bankers' Mag., 484-6.

³ Acts, 1865, 9. He says also that the school fund had "been squandered by bad men and dishonest functionaries, who fled at the approach of the old flag." It seems more probable that the fund had suffered with the rest of the bank's capital, than that this accounts wholly for its loss.

⁴ Acts, 1865-6, 38. The fund was reorganized in the Constitution of 1870. Art. xi., § 12.

paying interest on bonds issued for internal improvements which failed, and that the interest was used in part for the same purpose, and in part to promote education.¹

VERMONT RECEIVED \$669,086.79.

Gov. Jennison recommended that the income of the surplus be applied to the support of normal and primary schools.² Partially following the governor's advice, the money was accepted and disposed of in Nov., 1836, as follows: It was divided among the

¹ There is one reference to the surplus and the school fund which has been omitted in the text and reserved for notice here on account of the hitherto inexplicable confusion of the statements.

Jan. 1, 1859, the capital stock of the Bank of Tennessee was readjusted, "and the school fund constituting a portion of the capital stock was as follows:

| | | | | | | | | | | |
|----------------------------|---|---|---|---|---|---|---|---|---|--------------|
| School fund | . | . | . | . | . | . | . | . | . | \$215,648.35 |
| " " Ocoee | . | . | . | . | . | . | . | . | . | 576,536.81 |
| " " U. S. public lands | . | . | . | . | . | . | . | . | . | 11,189.80 |
| Surplus revenue (one half) | . | . | . | . | . | . | . | . | . | 466,439.59 |
| Ledger balance | . | . | . | . | . | . | . | . | . | 44,621.18 |

\$1,414,434.73."

Report of John Eaton, Superintendent of Public Instruction, 1869, p. of Appendix 103.

If we are to understand by this that of the whole surplus only twice \$466,439.59 was left, and that that sum had been credited to the school fund, the only difficulty then is to account for the missing part of the surplus; but if we look into the Index to the school laws which were compiled and published with the acts of 1853-4 (page 61 of the Index), we find among the sources of the school funds "one half of surplus revenue from U. S.," and reference is made to the 3d Sect. of the act of Feb. 3, 1842 (Acts, 1841-2, 209); but by this act one half of what Tennessee received from the distribution of the proceeds of public land sales was deposited in the Bank of Tennessee as a part of the common school fund. Acts, 1842-3, 210. This however creates the difficulty, for Tennessee received no such sum as \$932,879.18 from the land sales. Her share in the \$562,144.18 to be distributed from the proceeds of land sales from Jan. 1st to June 30, 1842, was \$26,446.68. Up to December 10, 1842, the news had come that one or two States had received their shares, while others had resolved not to receive theirs. Among the refusing States were South Carolina and Virginia. The land receipts from July 1st to the passage of the tariff bill, when the distribution ceased, had not been published then, but probably would not exceed \$184,000.—63 Niles, 226. Some one of the above authorities has evidently made a mistake. It is possible that the phrase "*one half*" ought to go with "U. S. public lands," and then every thing would be clear, except the fate of the missing part of the surplus of 1837.

² 51 Niles, 160.

towns on the basis of population, and was to be loaned on sufficient security at six per cent. interest. For this purpose three trustees were to be elected in each town. After every census the money must be newly apportioned. The interest the towns were to apply to the support of schools, or if they had other funds sufficient to support schools in their several school districts for six months in each year they could apply the interest to any object they might choose. Among the districts the "income was to be divided in the same manner as that raised by the three-per-cent assessment on the grand list." If the towns did not draw the principal they might draw the interest from the treasurer of the State who was to put their shares to use. The towns were accountable to the State when the State Treasurer should require, on requisition from the United States, or for the purposes of new division.

In cases of breaches of this act the Grand Jurors were to present indictments against each town so charged, and if the town should be convicted it must pay a fine not exceeding double the annual interest of its deposit and costs, which fine and costs were to be for the use of the county.¹

The general tenor of this law has never been changed. An investigation instituted this year shows "that most of the towns apply the income of the surplus revenue fund of 1837 to the support of schools. The several towns have invested and keep the income separate for school purposes, or have conveyed it into the treasury, and annually raise a sum by tax equal to the interest of the same, for the support of common schools. A few towns may fail to do this, but most do it."²

Vermont once had another school fund of about \$200,000 but the State borrowed it and then abolished it instead of paying the debt.³ The deposit is now called a "school fund." The State

¹ Z. Thompson, "Hist. of Vermont," part 2, 142; Acts of 1836, 11; Rev. Statutes of 1839, 119; Compiled Statutes, 1850, 155; General Statutes, 1862, 163; Revised Laws, 1880, 184.

² Letter from the State Supt. of Ed. In 1843 about half the interest was so applied.—Am. Alm., 1845, 208.

³ Am. Alm., 1846, 208, and 1847, 221. In 1851 the office of State Superintendent was abolished and no school returns made for some time.—Am. Alm., 1855, 228.

has borrowed the shares of some towns, and such loans of from one to fifteen thousand or more dollars have existed from the beginning. Probably in most cases these loans were merely instances where the towns did not draw the money which was invested by the State.¹

It will be noticed that Vermont and Connecticut made almost the same use of the surplus revenue; the similarity is closer than exists between any two States that have kept part of the money to the present day.

VIRGINIA RECEIVED \$2,198,427.99.

The surplus was accepted as a deposit by the act of December 20, 1836, in which pains was taken to declare that it was unjust to raise revenue for distribution.²

On the 20th of March, 1837, an act was passed increasing the banking capital of the State; by this act the State was to subscribe for half the increased stock from the surplus revenue. According to this provision, the State was to subscribe for

\$325,000 worth of stock in the Bank of Virginia, and for
505,000 " " in the Farmers' Bank of Virginia.

\$830,000

This sum was to be paid from the instalments already received. Further, from the instalments of July and October (any deficiency was to be supplied from the first two deposits) the following amounts of stock were to be bought:

\$370,000 in the Bank of the Valley of Virginia.
250,000 in the Northwestern Bank of Virginia, at Wheeling.
150,000 in the Merchants' and Mechanics' Bank, at Wheeling.
900,000 in the Exchange Bank of Virginia.

\$1,670,000

The residue was to be loaned as the executive of the Bank of

¹ Am. Alm., *passim*. "The State owes several towns, for the U. S. surplus fund deposited and left on interest, \$14,528.94, which is all loaned out agreeably to law on good securities."—1 Bankers' Mag., 372 (1846).

² Acts, 1836-7, 7; 51 Niles, 274.

Virginia saw fit,¹ or it was to be loaned to the Bank of Virginia and to the Farmers' Bank of Virginia at five per cent. yearly, with the right reserved to convert this loan into stock.² With the fourth instalment this residue would be about \$300,000.

Four days later, it was enacted that "so much of the profits or principal of the surplus fund on deposit in the treasury of this commonwealth, as shall be requisite to supply any deficiency in the receipts of the present fiscal year, shall be subject to the warrants of the auditor of public accounts to defray the legal and necessary expenses of the commonwealth."³

June 24th an act for the temporary relief of the banks suspended so much of the act of March 25th as touched the Bank of Virginia, the Farmers' Bank of Virginia, and the Bank of the Valley of Virginia till March 1, 1838. This act relieved them from increasing their capital, allowed them to suspend specie payments, and empowered the treasurer to loan out, at good security, at not less than five per cent. per annum, the surplus revenue that was to be subscribed to these banks. Further, these banks could borrow *without security* as much as was to be subscribed to the stock.⁴

At the same time the treasurer was authorized to detain out of the surplus revenue enough to discharge all claims on the treasury, which should be duly audited, whether government expenses or interest on improvement loans. So much as should be paid upon loans was to be put to the credit of the board of public works.⁵

The relief to the banks was extended on Feb., 20, 1838, till March, 20th, twenty days, and the time to increase the capital was extended till April first. As the 20th of March approached the limit of the relief was placed at the end of the session.⁶

¹ P. 72, of Acts, 1836-7. General ref., *ibid.*, 68-74. These two statements are not alternatives in the text, but such seems to be the sense of the law.

² P. 73, of Acts, 1836-7.

³ Acts, 1836-7, 6; 52 Niles, 273.

⁴ Acts of Extra Sess., June, 1837, 4.

⁵ Acts of Extra Session, June 1837, 7, and 52 Niles, 273.

⁶ Acts of 1838, 77.

One case of a loan of the surplus can be mentioned. In 1837 the executive loaned \$98,065.83 to the Richmond and Petersburg Railroad Co. The company failing to pay the interest repaid the loan in part by returning a draft for \$100,000 on the Board of Public Works which had been granted to the railroad. There was left then a deficit of \$11,993.¹

Either at this time or later \$225,792.93 "surplus revenue" appears to have been added to the literary fund.² During the war the income of this fund was ordered to be applied to the military defence of the State. \$216,000 was actually paid to the State under this ordinance, and the rest was realized by the State by not paying interest on its own obligations in the hands of the fund. No aid for schools to speak of has since been derived from the fund.³

With this meagre statement the account of the surplus in Virginia, so far based upon direct statements must end,⁴ but there are grounds for probable conjecture. It seems likely that some of the bank stock was turned over to the internal improvement fund later, for among the chief sources of State income in 1855 we find the "surplus revenue internal improvement fund" \$162,591,⁵ and in 1857 the same item was \$130,000.⁶ No further explanation was found, and this may not refer to the U. S. surplus of 1837.

¹ 59 Niles, 232.

² School Report, 1871, 198. It is not stated whether this surplus was the U. S. surplus, and it may have been rash to make that assumption in the text.

³ In 1871 it was stated: "No payments or receipts of any description have been made since the war on account of the literary fund, nor has any interest accrued to the State been funded."—*Ibid.*, 200. An inspection of later reports shows that very little is now received from the fund, which nominally amounts to \$1,877,364.68.

⁴ The treasurer of the State writes that the House Documents of the present Congress (1883-4) are to contain full information on the use of the surplus. Unfortunately this document is inaccessible at the present writing. The statement was probably made in connection with Virginia's application for the fourth instalment.—See page 43.

⁵ Am. Alm., 1857, 283.

⁶ Am. Alm., 1859, 280.

About this time the State owned stock in improvement companies to the amount of \$18,359,226, and held bonds and certificates of loans besides, which raised the amount to about \$24,000,000 par value. The real value was unknown and the property was much depreciated.¹ The following testimony is of considerable value : "The portion [of the State debts for capital borrowed] put to banking was totally lost, and what was expended in roads and canals nearly so, for most of them lie unfinished, or lead to points where such works are not wanted, or would not pay the interest on their construction."² These are the words of a man who represented Virginia in Congress from 1816 to 1840, and who favored distribution in 1836.³ If the surplus had been used differently than the borrowed capital in Virginia, or if Virginia was a marked exception among the States in this regard, it seems altogether probable that Mr. Mercer would have qualified this statement. As it stands it leads one to suspect that his views were formed to a certain extent on what he saw in Virginia.

Before leaving the special subject of the surplus in the States, it is best to say a word in reference to the character of the foregoing pages. The facts were gathered from very many sources and, in general, were unattended by any critical remarks. Oftentimes the only available source of information has been the statute-book, which tells what it was proposed to do rather than what was done, for many fine-sounding laws were inactive. On account of this peculiarity in respect to the sources of knowledge, it is very highly probable that a much more favorable light has been cast upon the whole operation than would be shed were critical information attainable.

Contemporary references, though few, generally present a blacker picture than is drawn in the investigation. Horace Greeley, as early as October 7, 1837, wrote : "Two thirds of the

¹ Am. Alm., 1858, 286.

² Exposition, etc., by Charles Fenton Mercer, p. 157. See also other extracts, pp. 132 and 222, quoted on pp. 124 of this work.

³ 1 Benton, 707. Mr. Mercer tried to have the States released from their obligations to return the money.

TABULAR SUMMARY.

| | ORIGINAL USE OF PRINCIPAL. | USE OF INTEREST. | FINAL DISPOSITION OR PRESENT CONDITION OF PRINCIPAL. |
|-----------------|---|---|---|
| ALABAMA . . . | Deposited in the State bank and branches, and used for capital. | Devoted to support of schools till 1843 and since 1854. | Lost in bad banking or by too heavy charges on the capital of the bank. |
| ARKANSAS . . . | Used as capital for the principal bank, and appropriated. | Nominally for schools; law, a dead letter. | Used up long since in general appropriations. |
| CONNECTICUT . . | Deposited with the towns and loaned by them. | $\frac{1}{2}$ for schools till 1855 (by law $\frac{1}{3}$); after 1855 the whole for schools. | Still loaned by towns; some lost; some a fixed charge on town books. |
| DELAWARE . . . | Invested in bank stock, loaned, and invested in railroads. | Devoted to schools. | In bank stock and a single State bond. |
| GEORGIA . . . | Invested in banking, or rather, deposited in the Central Bank and used as capital. | The interest on $\frac{1}{2}$ was appropriated for schools, but probably used for general expenses till 1870. | Used up in banking. |
| ILLINOIS . . . | Internal improvements, failures. | The interest on $\frac{1}{2}$ for schools. | Wasted on improvements. |
| INDIANA . . . | $\frac{1}{2}$ loaned, $\frac{1}{2}$ used for bank capital. | The interest on $\frac{1}{2}$ for schools; on $\frac{1}{2}$ for the State debt. | The portion loaned was lost; the portion in the bank was doubled. |
| KENTUCKY . . . | Used for bank stock and to pay the public debt. | The interest on $\frac{1}{2}$ devoted to schools. | Part in the school fund, and still exists. |
| LOUISIANA . . . | $\frac{1}{2}$ appropriated for State debt and for bank stock, the rest for education. | For schools since 1854. | Appropriated. |
| MAINE . . . | Mostly distributed per capita; a part devoted to schools. | A very small part for schools. | Mostly distributed. |
| MARYLAND . . . | $\frac{1}{2}$ for State debt, the rest deposited in banks. | The interest on $\frac{1}{2}$ for schools. | Used to pay the State debt. |
| MASSACHUSETTS . | Deposited with the towns to be used like revenue derived from taxation. | Somewhat for schools. | Used up mainly on town expenses. |

TABULAR SUMMARY.—Continued.

| | ORIGINAL USE OF PRINCIPAL. | USE OF INTEREST. | FINAL DISPOSITION OR PRESENT CONDITION OF PRINCIPAL. |
|------------------|--|---|---|
| MICHIGAN . . . | State expenses and unsuccessful improvements. | | |
| MISSISSIPPI . . | Improvements (fraudulent ?), and State expenses (?). | | |
| MISSOURI . . . | State Bank. | For schools. | Invested in State bonds. |
| NEW HAMPSHIRE | Deposited with the towns. | Small interest for schools. | Distributed or appropriated ; small part as a school fund. |
| NEW JERSEY . . | Deposited with the counties. | A good part for schools ; since 1867 the interest on $\frac{2}{3}$ for schools. | Expended on war bounties and county buildings. |
| NEW YORK . . . | Loaned on real estate. | Interest for education. | In bonds and real-estate loans. |
| NORTH CAROLINA | Invested in improvements, bank stock, and debt. | Mainly for education. | Lost during the war and reconstruction period. |
| OHIO | Deposited with the counties to be loaned. | For schools. | Used to pay the internal improvement debt. Interest charges still paid by the State to the school fund. |
| PENNSYLVANIA . | $\frac{1}{2}$ for education, $\frac{2}{3}$ for State expenses. | | |
| RHODE ISLAND . | Bank stock and loaned to towns. | Part for schools. | Largely, if not wholly, used for State expenses. |
| SOUTH CAROLINA | Invested in a profitable railroad. | State purposes. | Railroad property much injured during the war. |
| TENNESSEE . . . | State Bank. | Schools. | Used up in banking. |
| VERMONT | Deposited with towns. | About half for schools in 1844, now nearly all. | Still deposited. |
| VIRGINIA | Invested as bank capital. | | |

These statements are necessarily so brief that, to avoid misapprehension, they must be considered in connection with the fuller accounts under the States.

States have mismanaged and misapplied this great fund in such a miserable, time-serving, popularity-hunting fashion, that," etc.¹

Charles Fenton Mercer, an advocate of distribution, said, later, that the surplus deposited "was used up, generally speaking, in some visionary project, or it was distributed in some way to the emolument of party and wasted by demagogues."² And again: the States wasted it as they had done millions before—or what was infinitely worse, the dominant politicians got hold of it and under pretence of supporting schools or doing some work for the State, they and their abettors used it up."³ Benton's severe comments are well known and need not be quoted in detail.⁴ In brief, he finds no good effects of the bill and various hurtful consequences, such as corruption, extravagance, and useless waste of money. But these general effects will be considered more particularly in the following chapter.

¹ The *New Yorker*, March 24, 1837. The *N. Y. Journal of Commerce* pronounced "the surplus a curse and distribution a greater curse."

² Exposition, etc., 132. It is only fair to say that Mercer appears as an extreme pessimist in this book.

³ *Ibid.*, 222.

⁴ 2 Benton, 39.

CHAPTER XII.

SOME GENERAL EFFECTS OF THE ACCUMULATION AND DISTRIBUTION OF THE SURPLUS, ESPECIALLY UPON THE INTERNAL IMPROVEMENT SYSTEM.

CONCLUDING REMARKS.

THE origin and growth of the surplus, the legislation and feeling concerning it, and the various uses to which it was applied by the States, have all been described, and now it only remains to call attention to the relations between the surplus and the internal improvement craze, and to note some of the effects of the distribution. In general, the growth of the surplus was followed by a considerable increase in Government expenses,¹ legitimate and

¹ "One, and not the least, of the evils resulting from a surplus revenue is an extraordinary increase of our Federal expenses." A part of the general increase was attributed to the Indian wars, and then the report continues: "Unless prompt measures are taken to reduce our revenue, we may anticipate a rapid increase of our expenses, and the recurrence of another surplus for deposit or distribution."—Report of the Com. of Ways and Means. 51 Niles, 326 (Jan. 21, 1837).

The average annual expenditure, exclusive of the public debt, for the twelve years preceding 1836 was \$15,063,000. The expenditure for 1836 was \$30,868,164, and for 1837 \$39,164,745.

"The above sums include payments for trust funds and indemnities, which in 1837 were \$5,610,404.36."—54 Niles, 320.

Mr. Duncan, of Ohio (July 7, 1838), a Jackson man, in reply to Mr. Bond, who had upbraided the Jackson men for extravagance, mentions three instances of inexcusable extravagance that were supported by the opposition: 1st. \$1,500,000 for a canal through the suburbs of Washington. He had looked out on that canal seven months and had not seen a boat on it. "Unpardonable folly." 2d. An appropriation for a turnpike road, made at great expense on the bank of the Ohio and Chesapeake Canal. 3d. A turnpike parallel with this: the existence of the one superseded the necessity of the other. He had ridden six or seven times on these roads for exercise, and had seen only one shakily

illegitimate, and an astonishing prevalence of official recklessness and dishonesty in the Government finances, not to say of gigantic frauds and barefaced plundering of the Treasury.¹

Such results, however, are to be expected when a surplus exists, and in some respects are so well illustrated at the present day, as not to need any extended discussion.

But when the effect of the surplus in the States is to be estimated, another feature of the times, the widespread enthusiasm for internal improvements, demands attention, and, indeed, the two subjects are wellnigh inseparable.

The desire for internal improvements was early manifested in this country. The lack of convenient means of communication was a great hindrance to the development of the newly settled regions, and in a general system of improvements all classes saw great advantages: the land-owner saw his land rapidly rising in value, the farmer saw new and valuable markets opened to him, and the laborer saw brisk work and high wages.

Though in Congress the system met with continued opposition from the strict constructionists on constitutional grounds, the spirit of improvement grew steadily among the people, until by the invention of the railroad, it received a great impulse which fairly turned people's heads. The contagion spread and attacked the old and new communities alike. It will not lead me too far a field to present, in the text and notes, some materials which are not only interesting at the present day, but indispensable in forming an idea of the system. For this purpose a glance at the movement in Illinois will be perhaps sufficient. One who lived through the period writes: "In 1836 the fever of internal improvements raged throughout most of the States of the Union.

team on one, and never a living animal except his own horse on the other. "Extravagant," worthless," "wicked." But the most profligate and extravagant appropriation was for the Georgetown and Alexandria Canal and Aqueduct. The canal was underway, was right "on the bank of the Potomac—a canal, deep, still, and wide, being tide water."—54 Niles, 375. See Bolles, "Financial History of the U. S." (1789-1860), pp. 554-566, for other notable instances of extravagance, and also 3 Calhoun, 498-499.

¹ See Bolles, *ibid.*

N Pennsylvania, my native State, was crazy to improve the whole country, whether the wants of the people required it or not. Indiana was almost as wild ; and Illinois, also, was *crazed* considerably with the mania." The movement had begun in Illinois in 1832, and had rolled on with increasing momentum till 1836, when the law (*i. e.*, the improvement bill) was passed. It was not the fault of the politicians but of the people who clamored for it ;¹ the people would not trust their representatives, but sent on delegates to lobby. The bill of 1836-7 authorized a loan of \$8,000,000 for building 1,300 miles of railroad, and improving five rivers. \$200,000 was to be distributed throughout the counties which received no improvements.²

The fever raged at the next Legislature, and \$800,000 more was borrowed. "The people were perfectly *insane* on the subject," and beyond the reach of argument ; the banks then failed, money could not be obtained, and a called session of 1838-9 had to repeal the acts, and provide for winding up the business.³ The law had provided that the work should begin on all improvements at the same time, and so nothing had been completed except the rail-

¹ Another writer, William S. Wait, in a letter to *Bicknell's Reporter* disagrees with the above statement. "Our population is thinly scattered over a large territory ; strangers, not only to the country, but to each other, and but little acquainted with the men who compose the legislative body, and with the motives, other than those which should promote the general welfare (*sic*) that actuate them."—61 Niles, 244 (Dec., 1841).

² "The manner in which this young State has thus involved itself is made evident by this single paragraph from the governor's message : 'I am aware that the system is the result of mutual concession and compromise, and that its advantages were to be dispensed as equally as possible throughout the State, by the construction of improvements in almost every county, and appropriating to those in which no improvements were to be made \$200,000 in lieu thereof.' This is the most comprehensive system of log-rolling, softly referred to by the governor as 'mutual concession and compromise,' that we have any record of."—57 Niles, 356 (Jan., 1840).

³ "The Illinois improvement system still continues to create a great excitement in Illinois. At a meeting lately held in Peoria, strong resolutions were adopted recommending its 'total abandonment,' notwithstanding the admission that such a step would involve a sacrifice of \$4,000,000."—56 Niles, 368 (Aug., 1839).

road from Springfield to the Illinois River.¹ This road was of no advantage to the State, and was ordered to be sold for what it would bring. Though it cost the State over \$1,000,000, it sold for only \$100,000 in State indebtedness. The population, though poor and embarrassed with private debts, was left with a State debt of \$14,237,348.² The following extract describes the condition of affairs in five of the improvement States: "There are constructing in the five Western States of Ohio, Kentucky, Indiana, Illinois, and Michigan:

| | |
|-----------------------------------|-------------|
| "Of canals, about | 1,250 miles |
| "Of slackwater navigation | 750 " |

¹ "A correspondent of the St. Louis *Argus* gives the following brief account of the condition in which things will be left by the Legislature: Out of 300 miles of railroad some 20 are completed, the rest in every stage between completion and commencement—embankments half formed, bridges half built, an immense amount of timber lying on the ground; the first is left to wash away, the second to tumble down and decay, the last to rot in utter uselessness, unless some kind persons will take it for firewood or fences. A large amount of contracts are now abandoned by the State."—57 Niles, 402.

"The condition of Illinois is truly deplorable. We first see her immense internal improvement fund squandered by profligate Legislatures as commissioners, so that after an investment of over \$10,000,000 for public works, scarcely a mile of her canals and railroads has yet been completed so as to afford an income to the State." (The second disaster was trouble with the State bonds.)—61 Niles, 247.

² Abridged from Reynolds' "My Own Times," 324-5. In 1841 the debt was estimated at \$17,500,000 to \$19,125,000. In 1840 the population of the State was 476,183, and of Chicago, 4,470 (in 1880, 503,185).—Am. Alm., 1842, 252. In Gov. Carlin's Message of Dec., 1842, the proposed methods of paying for the improvements are explained. In brief: Six-per-cent. State bonds were issued to be reimbursable after a long term of years; the interest on these was to be paid by negotiating them in foreign markets and realizing the difference of exchange, by depositing the money thus raised with banks until it should be disbursed, and by receiving premiums upon it. Further, bank stock was to be subscribed for, "the dividends upon which, it was expected, would greatly exceed the interest upon the bonds with which the stock was purchased." "Thus it was contemplated by the advocates of this policy to complete those extensive improvements without any expense to the State during the process." When finished the tolls would pay the interest and principal of the cost.—63 Niles, 297.

| | |
|-----------------------------|--------------|
| " Of railroads | 1,540 miles |
| " Of McAdam roads | 1,400 " |
| <hr/> | |
| " Total | 4,940 miles, |

making, in the general aggregate of work to which the States are parties, about 5,000 miles of artificial communications. Of laborers directly employed on the works there are supposed to be at the lowest estimate not less than 20,000 during the greatest portion of the year. If to these we add the numerous body of public officers, engineers, contractors, agents, store-keepers, and the ordinary proportion of families, we shall find a population of not less than *one hundred and fifty thousand* who are dependent upon the public works of the Western States. The expenditures now annually amount to between *four and five million of dollars*, and the sum total of money solemnly pledged by legislative enactments to the completion of these works, with what has already been expended on them, is at least the enormous sum of *forty-eight* millions of dollars. To this sum we may add at least \$5,000,000 pledged on the part of individuals, and large sums for the completion of the national road. Of this aggregate about \$10,000,000 have already been expended, and it is within bounds to say that an amount fully equal to the sum total will be expended on these and similar undertakings within the next eight years."¹

How far short this was to come of the real facts appears from the following list of the debts of the "Delinquent States," or States that failed to pay the interest on their loans. The list is dated less than six years after the above was written.

| | DEBT. |
|------------------------|--------------|
| Pennsylvania | \$40,835,013 |
| Maryland | 11,387,285 |
| Mississippi | 7,000,000 |
| Louisiana | 20,558,000 |
| Arkansas | 3,000,000 |
| Illinois | 11,454,170 |

¹ 56 Niles, 262 (June, 1839).

| | DEBT. |
|--------------------------------|------------------------|
| Indiana ¹ | \$13,349,500 |
| Michigan | 4,077,178 ² |

Of course it would not be safe to assume that the whole amount of these several debts had been expended in internal improvements, but certainly by far the greater part of them had. As has been seen this great burden of debt brought on the whole no adequate recompense for the trouble and the disgrace of bankruptcy. Had the money been well spent and carefully husbanded ³ the result would have been different in degree but probably not in character. The work was undertaken in a heedless, imprudent way, and the conditions were unfavorable to a successful issue. When all the circumstances are considered—the log-rolling, the

¹ The case of Indiana deserves a special note. "In the fall of 1839, the purchasers of the State bonds having failed to pay, and the credit of the State being no longer available, the whole system of operations was paralyzed. On the 1st of November the total expenditures amounted to about seven millions, and it was then estimated that the total cost of the works, if completed, would be about twenty-three millions. Such was the undertaking of a State whose whole taxable property, at the time the system bill passed, did not exceed, according to the actual returns, more than forty-seven millions, and such was the result. The policy of constructing the works and parts of works simultaneously was so well pursued, that no considerable portion of any work was completed or fit for use. Twenty miles of the Madison Railroad, thirty miles of the White Water Canal, were the principal routes of travel that had been made ready; the system lay in fragments throughout a State whose vast territory of woodland, was, as yet, but slightly interspersed with patches of cultivation. There lies the system still—its unfinished excavations and embankments, locks, culverts, aqueducts, and bridges hastening to ruin; the income insufficient to pay the expenses of superintendence and repair. The Wabash and Erie Canal may be ready for navigation next fall, but conceding as much revenue to the work as was derived from similar portions of the Ohio Canal, it will not yield in five years more than expenses and repairs."—The *Louisville Journal*, 61 Niles, 229 (Dec., 1841).

² 67 Niles, 371 (Feb., 1845). Florida had to be added to this list two or three years later.—73 Niles, 218.

³ "As an actual fact it will be seen that in two thirds of the cases the State funds have not been judiciously or carefully used, and that the consequence has been a loss of the money furnished and no corresponding benefit, by reason of the development of material resources."—Hunt, 134.

requirement that all works should begin simultaneously, the fatuous hopes that in some way or other the improvements would cost the State nothing and would pay for themselves, and the reckless action of all parties concerned,—it seems right to say that the spirit was a spirit of gambling.

There was the same kind of excitement, and, with a few exceptions, equally disastrous consequences followed.

Apart from these considerations there is another reason for the misfortunes of the Western States. The chief lack of new communities is always capital, but the chief requisite for the prosecution of internal improvements, is abundant and cheap capital. This fact at once accounts for the enviable success of Holland in making internal improvements, and for the pitiable failure of the frontier States fifty years ago. Holland is old, well-peopled, and rich, while the Western States were barely out of their primitive condition; in Holland surplus capital and surplus labor are employed, in the West recourse was had to borrowed capital and laborers taken from the needful cultivation of the soil. Illinois in 1837, with about three fifths the present population of the single province of North Holland, possessed a territory over fifty times as great. In other words, the ratio of the density of population was as eighty to one, in favor of North Holland. It is remarked that of the less than half a million inhabitants of Illinois in 1840, probably less than 70,000 were taxpayers.

“The mass of the people,” said an observer at the time, “live in the first rude log-house which was thrown up to protect them from the weather.”¹ All their capital had been laid out in land,¹ and the population was sparse. With a trading capital estimated at \$2,500,000¹ (that of New York was about \$100,000,000), the people of Illinois expended on internal improvements between \$10,000,000 and \$15,000,000 in a few years. Under these circumstances it is easy to see that the results which followed the transfer of laborers from productive to unproductive employment, and of borrowing capital to do so, were inevitable; the candle was burning at both ends, and each moment the flame burned more fiercely.

¹ W. S. Wait in *Bicknell's Reporter*, Oct 30, 1841; 61 Niles, 243.

The rapid growth of the surplus gave foreign investors great confidence; the States wanted to borrow for internal improvements; to carry on these works men were drawn from the life-supporting industries; this led to an increase in the imports and therefore of the surplus, this to greater confidence and easier loans, this to more undertakings and more subtractions of labor from the productive employment, and so it went on till the crash came.

The key to the situation is easy to seize.

There was a large fixation of capital, when the country needed a large production of capital; and that it was borrowed capital, which was transformed into fixed capital, or more truly, sunk, just hastened the ruin so much more.

Simultaneously with the sudden expansion of the internal improvement movement came the distribution of the surplus to aggravate the evil. Despite the facility with which the States could borrow money in the earlier part of the excitement, the receipt of a large amount of capital, which they believed would not be recalled, undoubtedly impelled them to greater undertakings, and added fuel to a flame already burning too fiercely.

That this influence of the distribution was in most cases extremely hurtful can hardly be questioned. The States were attempting, or in the mood to attempt, far too much, and the distribution, by enticing them on with aid for the present, and with hopes of more in the future,¹ not merely increased the scale of the works but also, by so doing, greatly enhanced their cost. Since every additional laborer taken from agriculture raised the price of provisions, and every additional demand for labor raised wages, it was inevitable that every new undertaking was more expensive than the last, and, furthermore, increased the cost of all other un-

¹ Sec. Woodbury, in his Treasury Report in 1839, notes the greatly increased foreign liabilities of the States, and the large excess of exports over imports needed to settle these liabilities, and says that the rapid development of this state of affairs was "accelerated by the distribution of the surplus in deposit among the States, tempting them in several instances to new and unprofitable enterprises, and stimulating delusive hopes of still further distributions."—57 Niles, 294.

finished improvements.¹ In Pennsylvania the receipt of the surplus was followed by the passing of a bill appropriating \$3,000,000 to internal improvements. Gov. Ritner, in vetoing this bill, asserted that "the bare probability of the passage of the bill had already unsettled the condition of whole sections of the State, and had given a new stimulus to the over-excited spirit of speculation."² This bill was regarded by some as a distribution of the surplus,³ for no special disposition had been made of the money.

As most of the capital for improvements was borrowed, the increasing cost of the work failed to make itself felt as a brake. When the surplus came, practically a gift, the case was aggravated in its worst features, and prudence and economy forgotten.⁴

Five years after the distribution, Governor Thomas reviewed the effects of that measure in the following language: "Nothing has influenced more fatally the evil councils, by which so many of the States have become involved, than the delusive expectations, rekindled constantly as fast as they are quenched, of pecuniary largesses from the national treasury for State purposes. The distribution law (miscalled the deposit act), which beggared the General Government, whilst but few of the recipients of its bounties have been enriched, caused a most unfortunate revolution in public feeling, if not in public opinion. The possession of that fund, stimulating as it did the wildest speculations, destroyed at once all those salutary restraints found in the habits of the people and the conditions and powers of their local governments. An inexhaustible fountain of wealth, it was believed, had been opened, which was to flow in perennial streams into the State treasuries. State

¹ "In consequence of the rise in the price of labor and provisions within the last two years, and of the amount of work commenced in the other States, the expense of constructing public improvements has increased fully 50 per cent."—Gov. Ritner in his veto of the above-mentioned bill (April 3, 1837); 52 Niles, 105.

² *Ibid.*

³ *Ibid.*, 106.

⁴ "The moment the States yield to this tempting influence, their independence and sovereignty will be at an end. The privilege of expending the revenue, without any of the responsibilities which its collection imposes, will destroy every principle of moderation and economy."—Governor Carlin, of Illinois, in discussing the distribution of 1842; 63 Niles, 300.

legislators, it was thought, were no longer to be limited in their operations, or abridged in their expenditures, by the amount of revenue they might be emboldened to take directly by taxes from the pockets of the people. A new source of supply ~~was to~~ ^{was to come through the breach made in the Federal Constitution.} Private property was to be obtained for public purposes, by a less perceptible, because more circuitous, route. High tariffs were to be levied to supply not only the demands of the national treasury but, in conjunction with the land sales, to furnish a surplus for distribution after that deposited was exhausted. Under the influence of these and similar delusions, the large and oppressive debt of Maryland has been contracted."¹

With these words of Governor Thomas may be left the brief consideration of the effects of the distribution. As a discussion of the economic arguments for and against distributing the surplus revenue falls outside the range of this work, which is intended merely as an historical investigation, I have only to present a word or two in reference to the proper relation of the law of June 23, 1836, to the present schemes of distribution, and my work will be done.

The act of 1836 was designed to relieve the overburdened Treasury when the public money, as it was then deposited, was doing a vast deal of mischief ; an immediate remedy was sought for a financial plethora ; at the present day, however, there is no such pressing necessity, and the sole aim of the distributionists is to perpetuate a high protective tariff. Whether the design be laudable or not, that is unquestionably the fact.

There is, then, difference enough in the underlying causes to decrease the value of the precedent which, it is claimed, the act of 1836 offers to the later projects, but when the legal character of that act is compared with the propositions that have been lately advanced, the assumption that the former is a precedent for the latter is wholly unwarranted. In its legal character the law of June 23, 1836, was simply a bill regulating the Government de-

¹ Message of Governor Thomas, of Maryland, December 27, 1842.—63 Niles, 315.

posits. The wideness of the gulf between the modern plans and their supposed precedent appears in a striking light when we see the two strongest supporters of the deposit bill emphatically denouncing the collection of taxes for distribution.

Daniel Webster in his speech of May 31, 1836, "On the distribution of the surplus revenue," while favoring a distribution in that crisis, said: "There would be insuperable objections, in my opinion, to a settled practice of distributing revenue among the States. It would be a strange operation of things, and its effects on our system of government might well be feared. I cannot reconcile myself to the spectacle of the States receiving their revenues, their means even of supporting their own government, from the Treasury of the United States." Further on, Mr. Webster approved of the continued distribution of the proceeds of the public-land sales, if a separate account were kept of them; "but," he continues, "if we cannot separate the proceeds of the lands from other revenue, if all must go into the treasury together, and there remain together, then I have no hesitation in declaring now that the income from customs *must be reduced*. It must be reduced even at the hazard of injury to some branches of manufacturing industry; because this, in my opinion, would be a less evil than that extraordinary and dangerous state of things in which the United States should be found laying and collecting taxes for the purpose of distributing them."¹

A few years later Henry Clay, when discussing the constitutional power of the Government to tax, declared: "There is, then, I repeat, no power or authority in the General Government to lay and collect taxes in order to distribute the proceeds among the States. Such a financial project, if any administration were mad enough to adopt it, would be a flagrant usurpation."²

With these two opinions, coming from the highest sources, sharply implying the wide and essential difference between the "distribution in 1837" and the late propositions, the history of that incident may fitly close.

¹ Webster, 257.

² Clay's Works, 233.

APPENDICES.

APPENDIX I.

A supplement to "Examiner's" views, mentioned on page 16. The attempt is simply to calculate what would have been the excess of receipts over expenditures of the Government if there had been no fever of speculation.

ANNUAL RECEIPTS FROM LAND SALES.

| | |
|--|----------------------|
| Average for ten years before 1835 | \$2,363,004 |
| " " after 1836 | <u>3,171,167</u> |
| | 2)5,534,171 |
| Average for twenty years excluding the speculative period | \$2,767,085 |
| The sales of 1835 amounted to | \$14,757,600.75 |
| | <u>2,767,085.00</u> |
| By subtracting the average yearly receipts we find the speculative excess for 1835 | \$11,990,515.75 |
| The sales of 1836 amounted to | \$24,877,179.86 |
| | <u>2,767,085.00</u> |
| Going over the same process, we find the speculative excess to be | \$22,110,094.86 |
| | <u>11,990,515.75</u> |
| We now find that the receipts of 1835 and 1836 exceed the annual average for twenty years by | \$34,100,610.61 |

This excess of \$34.1 million, though calculated from the average of twenty years, is probably a little too large. The time during which the average is calculated included, before 1835, several years when credit was not given on the sales, and after 1836 several years of depression.

Now as the receipts of 1834 were \$4.9 million, and of 1837 \$6.8 million, approximately, it will be fair enough to assume that the normal receipts of 1835 would have been about \$5.5 million
And for 1836 6. million.

Then we have the estimated normal receipts for 1835 and 1836, \$11.5 million.

| | |
|---|-----------------|
| Actual receipts for 1835 and 1836 | \$39,634,780.55 |
| | <u>11.5</u> |

| | |
|--|--------|
| Estimated speculative increase for those years, consisting largely of bank credits | \$28.1 |
|--|--------|

In the general account of the Government we have :

| RECEIPTS, EXCLUDING LOANS. | EXPENDITURES, EXCLUDING INTEREST. |
|----------------------------|-----------------------------------|
|----------------------------|-----------------------------------|

| | |
|-----------------------|-----------------------|
| 1834, \$21.8 million. | 1834, \$18.4 million. |
| 1835, 35.4 " | 1835, 17.5 " |
| 1836, 50.8 " | 1836, 30.9 " |
| <u>\$108.0</u> " | <u>\$66.8</u> " |
| 66.8 | |

\$41.2 " = the excess of receipts over expenditures in those three years.

\$41.2 million, excess of general receipts.

28.1 " Speculative excess of land receipts.

\$13.1 " = Approximately the surplus, excluding abnormal land receipts.

3. " But the speculative spirit caused unusually large importations to be made, and thereby increased the customs. Three million dol-

\$10.1 " lars may be assumed as the amount of this abnormal excess though it was probably near five millions. Our result is that under ordinary circumstances there would have been a surplus Jan. 1, 1837, of about \$10,000,000 instead of \$41,000,000. There is only one further modification to be made. The presence of the surplus notably increased Congressional expenditures during 1836, so that about the excess of receipts was somewhat too small. But making all the necessary allowances, the figures show that if the deposits had not been removed to excite the speculation, and if the speculation had not been excited in some other way, there never would have been anywhere near as large a surplus.

APPENDIX II.

TABLES.

TABLE I. See p. 38.

Statement of amount on deposit in the N. Y. banks to the credit of the Government, Jan. 1, 1837, also the same April 26th, and the amounts credited to the State April 26th. By subtracting the sum of the last two columns from the first, we get as a remainder the amount of Government funds withdrawn from New York in less than four months.

| | Jan. 1st, Government. | April 26th, Government. | April 26th, State. |
|---|---------------------------------------|----------------------------|-----------------------------------|
| Manhattan Company . . . | \$2,148,325.78 | \$770,577.76 | \$206,005.96 |
| National Bank | 320,000.00 | 170,000.00 | |
| Phenix Bank | 1,089,160.00 | 170,795.00 | 180,000.00 |
| Mechanics' Bank | 3,739,050.00 | 1,000,000.00 | |
| Merchants' Bank | 728,880.00 | 346,100.02 | 205,000.00 |
| Leather Manuf. Bank . . | 450.00 | 200,089.27 | 65,000.00 |
| Bank State of New York . | | | 325,000.00 |
| Lafayette Bank | 345,000.00 | 134,000.00 | |
| Dry Dock Bank | 150,000.00 | 80,000.00 | 50,900.00 |
| Tradesman's Bank | 201,000.00 | 94,676.92 | |
| Merchants' Ex. Bank . . | 380,000.00 | 50,498.21 | |
| Seventh Ward Bank . . . | 375,000.00 | 149,813.57 | 106,347.14 |
| Union Bank | 709,634.29 | 248,634.20 | 210,000.00 |
| Bank of America | 2,664,017.73 | 1,267,624.00 | |
| | <u>\$12,294,067.80</u> | <u>\$4,066,210.74</u> | <u>\$1,358,003.10¹</u> |
| | | 1,358,003.10 | |
| Amount withdrawn from New York in less than four months | <u>6,125,213.14</u> \$6,168,854.66 | <u>\$6,125,213.14</u> | |

This item to the credit of the State is only a trifle larger than one instalment.

TABLE II. See p. 40.

The table (taken from Mr. John Quincy Adams' speech "upon nouns, pronouns, and adjectives," 53 Niles, 167) shows the amount due each State on Oct.

¹ 52 Niles, 227.

1, 1837, the actual deposits in the deposit banks of each State in July and August, 1837, to meet the general call for the payment of this fourth instalment, the number of deposit banks in July and on Oct. 4, 1837, and the balances still due Oct. 4, 1837. From this table it may be seen how great the deposits were in the States where the land sales occurred, and how almost completely unavailable that part of the surplus was.

| Deposits due to the several States on the first of Oct., 1837. | No. of dep. banks and actual deposits, July and August, 1837. | No. of deposit banks Oct. 4, 1837. | Balances still due Oct. 4, 1837 |
|--|---|------------------------------------|---------------------------------|
| Maine | \$318,612 5 | \$117,042 3 | \$41,708 |
| New Hampshire | 223,028 6 | 114,026 5 | 63,635 |
| Massachusetts | 446,057 4 | 81,278 4 | 42,891 |
| Rhode Island | 127,445 2 | 5,433 2 | 1,133 |
| Vermont | 223,028 2 | 588 2 | 466 |
| Connecticut | 254,890 2 | 31,629 3 | 7,409 |
| New York | 1,338,173 15 | 1,386,919 14 | 803,570 |
| New Jersey | 254,890 3 | 95,506 3 | 37,292 |
| Pennsylvania | 955,838 2 | 255,445 3 | 131,857 |
| Delaware | 95,583 1 | 2,906 1 | 2,906 |
| Maryland | 318,612 2 | 280,198 2 | 212,102 |
| Virginia | 732,809 4 | 403,136 3 | 739,302 |
| North Carolina | 477,919 1 | 146,030 1 | 64,638 |
| South Carolina | 350,474 2 | 111,590 2 | 125,433 |
| Georgia | 350,474 3 | 172,269 3 | 119,706 |
| Alabama | 223,028 1 | 1,020,856 1 | 906,379 |
| Mississippi | 127,445 2 | 1,744,373 2 | 1,656,367 |
| Louisiana | 159,306 2 | 1,450,023 2 | 918,749 |
| Missouri | 127,445 1 | 589,327 2 | 355,280 |
| Kentucky | 477,919 4 | 843,246 4 | 845,053 |
| Tennessee | 477,919 2 | 514,516 2 | 182,932 |
| Ohio | 669,086 8 | 1,127,979 8 | 960,061 |
| Indiana | 286,751 5 | 743,129 5 | 660,723 |
| Illinois | 159,306 1 | 39,795 1 | 39,323 |
| Arkansas | 95,583 | | |
| Michigan | 95,583 2 | 998,050 2 | 882,994 |
| \$9,367,214 | \$12,275,302 | | \$9,801,921 |

These very suggestive figures Adams analyzed and commented upon at considerable length with great vigor. There is room to quote only one or two paragraphs.

"The balances due, therefore, from the deposit banks, in the single State of Mississippi, a State with four electoral votes, are nearly one hundred thousand dollars more than adequate to pay the whole fourth instalment receivable by herself, and by the six New England States."

"But observe that, through the whole of September, although the deposit act of 23d June, 1836, was in full force, the Secretary of the Treasury continued to

draw from the banks of the North to the amount of more than eight hundred thousand dollars of those balances, which ought to have been applied toward the payment of the fourth instalment to the States of the North; while, at the same time, he left in the Southwest and Western States nearly seven millions and a half, nearly five millions more than the fourth instalment, which they were entitled to receive."

A considerable portion of these unavailable deposits remained unpaid for a long time.

The Treasury Report, Dec., 1838, mentioned the following "funds, not immediately available, in the Treasury":

(\$28,101,644.97 deposited with the States.)

\$1,100,000 "due chiefly from various insolvent banks, on account of money that before 1837 had been placed in their custody to the credit of the Treasurer, and still remains unpaid."

\$2,400,000 "due from banks that suspended specie payments in 1837, and will probably not be paid during the present year."—55 Niles, 242.

TABLE III.

Illustrating the Great Arbitrary Movements of Money in the Months Before the Crisis.

This table shows the amounts that each State received (1st col.), the amounts on deposit, June 20, 1836 (2d col.), and Dec. 19, 1836 (3d col.), and the possible or the necessary transfers of money to or from each State between Dec. 19, 1836, and July, 1837, in order that the first three instalments might be paid (4th col.), (transfers to or necessary transfers are marked *plus*, and transfers from or possible transfers, *i. e.*, the excess over the requirements of the first three instalments in the given State, *minus*). A comparison of cols. 2 and 3 shows, of course, the transfers that took place between June 20th and Dec. 19th. Col. 5 shows the transfers that took place before July or Aug., 1837. The arrangement of the States is by their position, so far as possible, so as to show the magnitude of the transfer in general.

¹ These figures are found by adding to or subtracting from the figures in col. 4 the sums on deposit in the respective States in July, 1837, *e. g.*, \$448,234.25 had to be transferred to Maine to distribute the first three instalments; but in July there is still \$117,042 on deposit in Maine. These sums added together give approximately the actual transfers to Maine. In States possessing ports of entry and land offices, the account would be modified somewhat, but this influence would generally balance itself. I say "*at least*," because if the banks of Maine did not pay up promptly, their deficiency would have to be supplied from other States. This was probably the case in Tennessee, for in-

| States. | Am't deposited with the States.— Col. 1. | Am't. on deposit in the banks of the States, June 20, 1836.— Col. 2. | Am't. on deposit in the banks of the States, Dec. 19, 1836.— Col. 3. | The necessary transfer to, or possible transfer from, before July, 1837.—Col. 4 | The actual transfer between Dec. 19, 1836, and July, 1837, was at least. ¹ —Col. 5. |
|----------------------|---|---|---|---|--|
| Maine . . . | \$ 955,838.25 | \$ 231,829 | \$ 507,604 | + \$448,234.25 | + \$ 565,276.25 |
| New Hampshire . . . | 669,086.79 | 180,200 | 632,285 | + 36,801.79 | + 150,827.79 |
| Vermont . . . | 669,086.79 | 52,975 | 162,315 | + 506,771.79 | + 507,359.79 |
| Massachusetts . . . | 1,338,173.57 | 2,077,164 | 2,386,476 | — 1,048,302.42 | — 962,024.42 |
| Rhode Island . . . | 382,335.30 | 112,084 | 349,758 | + 32,577.30 | + 38,010.30 |
| Connecticut . . . | 764,670.60 | 103,839 | 741,063 | + 23,670.60 | + 55,299.60 |
| New York . . . | 4,014,520.71 | 12,108,322 | 11,536,271 | — 7,521,750.29 | — 6,134,831.29 |
| New Jersey . . . | 764,679.60 | None. | 534,004 | + 230,675.60 | + 267,967.60 |
| Pennsylvania . . . | 2,867,514.78 | 2,643,175 | 2,684,880 | + 282,634.78 | + 538,079.78 |
| Delaware . . . | 286,751.49 | None. | 170,000 | + 116,751.49 | + 119,657.49 |
| Maryland . . . | 955,838.25 | 1,447,663 | 1,225,210 | — 269,371.75 | + 10,822.25 ² |
| Virginia . . . | 2,198,427.94 | 489,951 | 1,238,660 | + 959,767.94 | + 1,362,903.94 |
| North Carolina . . . | 1,433,757.39 | 129,625 | 660,697 | + 773,060.39 | + 929,090.39 |
| South Carolina . . . | 1,051,422.09 | 484,680 | 936,576 | + 114,846.09 | + 225,436.09 |
| Georgia . . . | 1,051,422.09 | 637,011 | 558,904 | + 492,518.09 | + 664,787.09 |
| Alabama . . . | 669,086.79 | 1,057,740 | 1,407,505 | — 738,418.21 ² | + 167,960.79 ² |
| Mississippi . . . | 382,335.30 | 1,619,564 | 1,791,558 | — 1,409,222.70 | + 247,144.30 |
| Louisiana . . . | 477,919.14 | 2,568,355 | 4,382,308 | — 3,904,388.86 | — 2,454,365.86 |
| Tennessee . . . | 1,433,757.39 | 631,289 | 492,433 | + 941,324.39 | + 1,455,840.39 |
| Kentucky . . . | 1,433,757.39 | 400,037 | 1,802,846 | — 369,088.61 | + 474,157.39 |
| Ohio . . . | 2,077,260.34 | 1,520,979 | 3,130,881 | — 1,053,620.66 | + 76,358.34 |
| Indiana . . . | 860,254.44 | 1,021,195 | 2,136,419 | — 1,276,164.54 | — 533,045.54 ² |
| Illinois . . . | 477,919.14 | None. | 45,616 | + 432,303.14 | + 472,098.14 |
| Missouri . . . | 382,335.30 | 1,890,304 | 1,880,628 | — 1,498,292.70 | — 908,965.70 |
| Arkansas . . . | 286,751.49 | None. | None. | + 286,751.49 | + 286,751.49 |
| Michigan . . . | 286,751.49 | 1,895,175 | 1,462,222 | — 1,175,470.51 | — 187,420.51 |

¹ (The note begins on the previous page.)

stance, for only \$941,324.39 was required from abroad to complete the three instalments, while \$1,455,840.39 was sent in, more than enough to pay all four instalments, whence it would appear that none of the \$492,433 (in col. 3) had been available. The excess of the figure in col. 5 over the three instalments, if added to the \$492,433, makes a sum nearly equal to the deposits in the Tennessee banks, July, 1837. See Table II. above.

² Where a plus figure in col. 5 follows a minus in col. 4, it shows that the given State, though containing deposits in its banks in excess of its share of the surplus, found it impossible to collect these deposits. Miss. and Ohio are good instances of this state of affairs. It is to be noted that New York furnished about three fifths of the amount transferred to other States. (This table was constructed from the data of the one in Niles 51, 306, and the one quoted from Niles 53, 169.)

TABLE IV.

The surplus was divided among the States according to their electoral vote, or on the basis of direct taxation. But since the electoral vote of each State in 1837 was based upon the census of 1830, a *per capita* division of each State's share according to the census of 1830 will very strikingly show the great gain of

| States. | Electoral vote. | The share received by each State. | Am't to each free person (census of 1830). | Am't. to each free person (estimated population, 1837). ¹ |
|--------------------------|-----------------|-----------------------------------|--|--|
| Alabama | 7 | \$669,086.79 | \$3.48 | \$2.28 |
| Arkansas | 3 | 286,751.49 | 11.11 | 4.57 |
| Connecticut | 8 | 764,670.60 | 2.57 | 2.50 |
| Delaware | 3 | 286,751.49 | 3.90 | 3.82 |
| Georgia | 11 | 1,051,422.09 | 3.50 | 2.55 |
| Illinois | 5 | 477,919.14 | 3.04 | 1.49 |
| Indiana | 9 | 860,254.44 | 2.51 | 1.48 |
| Kentucky | 15 | 1,433,757.39 | 2.74 | 2.22 |
| Louisiana | 5 | 477,919.14 | 4.50 | 2.98 |
| Maine | 10 | 955,838.25 | 2.39 | 2.02 |
| Maryland | 10 | 955,838.25 | 2.77 | 2.54 |
| Massachusetts | 14 | 1,338,173.58 | 2.19 | 1.91 |
| Michigan | 3 | 286,751.49 | 9.07 | 1.63 ² |
| Mississippi | 4 | 382,335.30 | 5.39 | 2.59 |
| Missouri | 4 | 382,335.30 | 3.31 | 1.99 |
| New Hampshire | 7 | 669,086.79 | 2.49 | 2.39 |
| New Jersey | 8 | 764,679.60 | 2.40 | 2.15 |
| New York | 42 | 4,014,520.71 | 2.09 | 1.76 |
| North Carolina | 15 | 1,433,757.39 | 2.91 | 2.85 |
| Ohio | 21 | 2,077,260.34 | 2.21 | 1.54 |
| Pennsylvania | 30 | 2,867,514.78 | 2.13 | 1.77 |
| Rhode Island | 4 | 382,335.30 | 3.93 | 3.73 |
| South Carolina | 11 | 1,051,422.09 | 3.96 | 3.94 |
| Tennessee | 15 | 1,433,757.39 | 2.65 | 2.32 |
| Vermont | 7 | 669,086.79 | 2.38 | 2.33 |
| Virginia | 23 | 2,198,427.94 | 2.96 | 2.81 |

¹ The estimated population of 1837 has been obtained by adding seven tenths ($\frac{7}{10}$) of the increase of free persons in the years 1830-40 to the number of free persons in 1830. I have used in the calculation the free population, at considerable trouble, to show the gain of the slave-holding States from their slave representation, a gain not offset at that time by any direct taxation worth mentioning. At this time, by act of Congress, 1832, one representative was returned for every 47,700 of representative population.

² Calculated on the Michigan census of 1837.

the sparsely populated States by such a ratio of division. This division is found in the first of the subjoined columns, while the second shows the changes in the per capita shares wrought by the increase of population.

It may be noted that Michigan's share per capita decreased the most with the increase of population, and that South Carolina's decreased the least. These tables are also highly interesting as showing the inequality of the burdens that would have fallen upon the States in case an expensive foreign war had necessitated at that time heavy direct taxation. In 1837, if \$28,101,644.91 had been raised by direct taxation rich New York, would have contributed \$1.76 per free person, and poor wild Arkansas \$4.57 per free person. Under the same circumstances Massachusetts would have contributed \$1.91, and Rhode Island \$3.73. Of course the offset to this inequality was the proportionately larger voice that the small States had in public affairs.

APPENDIX III.

A list of the towns in Massachusetts that appropriated more or less to education from the surplus revenue during the years 1841 and 1846.

| | | | | | | | | 1841 | 1846 |
|-----------------------|---|---|---|---|---|---|---|----------|----------|
| BARNSTABLE Co. | | | | | | | | | |
| Barnstable | . | . | . | . | . | . | . | \$450.00 | \$331.00 |
| Eastham | . | . | . | . | . | . | . | | 75.00 |
| Falmouth | . | . | . | . | . | . | . | | 299.31 |
| Harwich | . | . | . | . | . | . | . | 100.00 | |
| Sandwich | . | . | . | . | . | . | . | | 372.01 |
| Wellfleet | . | . | . | . | . | . | . | 112.50 | 87.00 |
| BERKSHIRE Co. | | | | | | | | | |
| Becket | . | . | . | . | . | . | . | 129.52 | |
| New Ashford | . | . | . | . | . | . | . | 34.58 | |
| New Marlborough | . | . | . | . | . | . | . | | 204.78 |
| Sheffield | . | . | . | . | . | . | . | 180.00 | 180.00 |
| Tyringham | . | . | . | . | . | . | . | 177.25 | 167.25 |
| BRISTOL Co. | | | | | | | | | |
| Dighton | . | . | . | . | . | . | . | 171.00 | 171.00 |
| Rehoboth | . | . | . | . | . | . | . | | 139.20 |
| Seekonk | . | . | . | . | . | . | . | | 242.00 |
| DUKES Co. | | | | | | | | | |
| Tisbury | . | . | . | . | . | . | . | 140.00 | |
| ESSEX Co. | | | | | | | | | |
| Danvers | . | . | . | . | . | . | . | 276.60 | |
| Georgetown | . | . | . | . | . | . | . | | 90.00 |
| Haverhill | . | . | . | . | . | . | . | 299.00 | 531.18 |
| Newbury | . | . | . | . | . | . | . | | 382.50 |
| FRANKLIN Co. | | | | | | | | | |
| Montague | . | . | . | . | . | . | . | 183.61 | 168.06 |
| Whately | . | . | . | . | . | . | . | | 150.00 |
| HAMPDEN Co. | | | | | | | | | |
| Palmer | . | . | . | . | . | . | . | 174.00 | |
| Springfield | . | . | . | . | . | . | . | 936.51 | 1061.84 |
| Tolland | . | . | . | . | . | . | . | 84.60 | 84.00 |
| Wilbraham | . | . | . | . | . | . | . | 235.59 | 246.70 |

| HAMPSHIRE Co. | | | | | | | | 1841 | 1846 |
|-------------------|---|---|---|---|---|---|---|------------|------------|
| Cunnington | . | . | . | . | . | . | . | \$156.00 | \$150.00 |
| Granby | . | . | . | . | . | . | . | 100.00 | |
| Hatfield | . | . | . | . | . | . | . | | 113.74 |
| Middlefield | . | . | . | . | . | . | . | 90.00 | 90.08 |
| Plainfield | . | . | . | . | . | . | . | 119.13 | |
| Southampton | . | . | . | . | . | . | . | | 150.00 |
| Worthington | . | . | . | . | . | . | . | 146.98 | 146.98 |
| MIDDLESEX Co. | | | | | | | | | |
| Ashby | . | . | . | . | . | . | . | | 40.00 |
| Bedford | . | . | . | . | . | . | . | 90.00 | 90.00 |
| Billerica | . | . | . | . | . | . | . | 75.20 | |
| Brighton | . | . | . | . | . | . | . | 58.93 | |
| Dracut | . | . | . | . | . | . | . | | 23.71 |
| Holliston | . | . | . | . | . | . | . | 180.00 | 180.00 |
| Lexington | . | . | . | . | . | . | . | 60.00 | |
| Lincoln | . | . | . | . | . | . | . | | 88.50 |
| NORFOLK Co. | | | | | | | | | |
| Bellingham | . | . | . | . | . | . | . | 140.62 | 140.63 |
| Dover | . | . | . | . | . | . | . | 52.50 | 52.50 |
| Needham | . | . | . | . | . | . | . | 60.00 | |
| Sharon | . | . | . | . | . | . | . | 131.20 | 131.20 |
| Stoughton | . | . | . | . | . | . | . | 180.06 | 180.00 |
| Wrentham | . | . | . | . | . | . | . | 336.46 | 341.84 |
| PLYMOUTH Co. | | | | | | | | | |
| Duxbury | . | . | . | . | . | . | . | 220.00 | 228.00 |
| Marshfield | . | . | . | . | . | . | . | 99.71 | 91.71 |
| North Bridgewater | . | . | . | . | . | . | . | 276.20 | |
| Plympton | . | . | . | . | . | . | . | 42.80 | |
| WORCESTER Co. | | | | | | | | | |
| Douglas | . | . | . | . | . | . | . | 142.05 | |
| Mendon | . | . | . | . | . | . | . | 415.29 | 131.75 |
| Uxbridge | . | . | . | . | . | . | . | 247.00 | 247.00 |
| Total | . | . | . | . | . | . | . | \$6,625.95 | \$8,392.99 |

EXAMPLES OF THE USE OF THE SURPLUS IN OTHER TOWNS.—During my investigations of this subject I sent out about forty circulars to the town clerks of the chief cities and towns in Massachusetts, to learn how much was received by those towns, the use made of the money, whether any was lost, whether it had been a benefit, whether it had led to extravagance, etc., etc. The following information was gained :

AMHERST received \$5,491.01.—The money was loaned at first and then later \$4,433.17 was paid for a farm, and \$1,219.12 for a new barn thereon. The farm has served as a poor-farm since. In 1882 the buildings were burned, but were well insured. \$408.37, made up of the interest and the residue of the principal, was used for town expenses in 1839 or 1840. The surplus has been regarded as "a great benefit." None of it has been lost.

ANDOVER received \$9,707.40, which was "all used in paying town debts." It was a benefit.

BOSTON received \$140,599.83.—The money was used for city expenses in 1838, and some loans authorized by the city council were not negotiated, as the surplus in the bank drew less interest for the city than would have been paid for a loan. (See Auditor's Rep., Dec., 1838.)

CAMBRIDGE.—No records in the clerk's office state the amount of the surplus falling to the town. The money was put in the town treasury.

DANVERS.—Upon the division of the town in 1855 Danvers received about \$4,500. At first it was considered a liability of the town, and the income was appropriated to schools. In 1859 the "liability" theory was discarded and the money considered town funds. "It did not lead to any unusual or extravagant expenditure."

FITCHBURG received \$4,856.04, and the money was used to pay the debt of the town. The city treasurer cannot learn that the money led to any extravagance, and believes it was a great benefit, as it "lightened the public burdens for the next few years," a period of general distress in business.

GROTON received \$4,115.—"Just about the time this money was received a heavily loaded, seven-horse team, driver and all, fell through a bridge over the Nashua River, causing a loss or damage of about \$3,000, and this \$4,115 was regarded by many as a *real Godsend* to meet that occasion, though the money was actually used by the town to pay its "*interest-bearing* indebtedness." Certainly a benefit.

LEE.—Amount unknown; used partly to pay off the town debt and partly for the benefit of schools.

LYNN received \$14,897.00, and the money was used to pay the town debt.

NANTUCKET received \$16,255.45, and it was used to pay the debt in part. "A very great benefit."

NEW BEDFORD received \$18,258.95.—The money was "expended in the erection of a town hall." The work was economically done, and the surplus was a benefit.

NEWBURYPORT received \$14,843.—The money was loaned to the State till June 1, 1843, when \$15,776.26, credited to the "surplus revenue," was appropriated for public improvements. This sum probably includes the original

principal and the accrued interest. \$5,000 was appropriated to the school department, and was used mainly for repairs and new buildings. \$348.75 was spent for globes and maps, and \$500 for philosophical apparatus.

\$5,000 was appropriated for the fire department, and the residue for town repairs. The accounts of the town show a little change from this program, as follows :

| | | |
|---------------------------------------|------------|-------------|
| New Brick Barn for Poor Dep't | \$3,253.79 | |
| Expended on Alms-House | 274.09 | \$3,527.88 |
| School Dep't and Buildings | | 5,400.75 |
| Highways | | 1,565.37 |
| Fire Dep't | \$1,870.03 | |
| “ “ for Reservoirs | 1,879.39 | 3,749.42 |
| Public Park or Mall and Pond | | 1,403.30 |
| Incidental Expenses | | 120.54 |
| | | <hr/> |
| | | \$15,776.26 |

“ It appears from the above statement that the money was very judiciously expended, that the inhabitants of this city are at the present time receiving benefits from the surplus revenue—having in possession and constant use the public buildings and other improvements paid for by said revenue.”

SALEM received \$29,790.23, which was “ appropriated as follows :

| | |
|---|------------|
| “ Payment of part of city debt | \$8,000.00 |
| “ Repairs on building occupied by insane poor | 600.00 |
| “ Erection and furnishing of City Hall | 21,190.13 |

“ \$29,790.13 ”

The work was economically done and was a benefit to the town.

SANDWICH received “ about \$3,500.—It was loaned to individuals ; none of it was lost. In the year 1856 the roads of the town were, on account of the very unusual fall of snow, rendered impassable, again and again, so that the expenses of clearing amounted to that sum ;—the town in consequence voted to use said revenue to pay the expense, which was done. I presume the work was as economically done as in any other service performed.”

SHEFFIELD received \$4,940.96.—It was loaned on the security of “ individual names, residents of the town.” \$700 is now “ *missing*.”

The interest was appropriated for schools. Later the principal was for town purposes, like building bridges. The work is thought to have been economically done, and was “ without question ” a benefit.

SPRINGFIELD received \$15,764.00.—It was at first loaned on real-estate mortgages, and the interest “ applied to the support of schools.” Later the principal was applied “ to the payment of the town debt.” “ Certainly ” a benefit.

These instances are good examples of what was done through the State and in New Hampshire as well.

APPENDIX IV.

The appropriations for schools made from the "Surplus Revenue" by the towns in New Hampshire during four years.

| | 1865-6. | 1868-9. | 1869-70. | 1870-1. |
|-------------------------|---------|---------|----------|---------|
| ROCKINGHAM Co. | | | | |
| Brentwood | | | \$268.63 | |
| East Kingston | 36.09 | | 36.09 | |
| Epping | | | 240.00 | |
| Londonderry | 100.00 | 100.00 | 100.00 | 100.00 |
| Rye | 50.00 | | | |
| Salem | | | | 220.00 |
| STRAFFORD Co. | | | | |
| Dover | | | 500.00 | |
| Farmington | | 180.00 | 120.00 | 180.00 |
| Madbury | 12.12 | | | 12.42 |
| BELKNAP Co. | | | | |
| Centre Harbor | | 25.83 | 18.03 | |
| Milton | | | | 30.00 |
| New Durham | | | | 67.20 |
| New Hampton | 60.00 | | | |
| CARROLL Co. | | | | |
| Brookfield | | | 9.00 | |
| Hart's Location | | 8.00 | | |
| Moultonborough | | | | 124.00 |
| Sandwich | | 7.00 | | |
| Tamworth | 1.44 | 2.00 | 72.00 | 72.00 |
| Tuftsborough | | | | 108.00 |
| Wakefield | 14.30 | 28.74 | 14.30 | 14.37 |
| MERRIMACK Co. | | | | |
| Dunbarton | | | | 54.14 |
| Henniker | 12.00 | | | |
| Hopkinton | | | 153.54 | |
| New London | | 42.00 | | |
| HILLSBOROUGH Co. | | | | |
| Amherst | | | | 101.79 |
| Bennington | | | | 265.64 |
| Francetown | 13.98 | | | |
| Hudson | 48.00 | 24.00 | 12.00 | |
| Litchfield | | | 17.00 | |

| | 1865-6. | 1868-9. | 1869-70. | 1870-1. |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| CHESHIRE CO. | | | | |
| Chesterfield | | | 57.20 | |
| Marlow | | 60.30 | 60.30 | 60.30 |
| Richmond | | 75.25 | | |
| Ringe | | | 56.00 | |
| Troy | | | | 78.00 |
| Westmoreland | 141.00 | | | 88.14 |
| Winchester | | | 117.20 | 202.00 |
| SULLIVAN CO. | | | | |
| Acworth | | | | 100.00 |
| Cornish | | 23.24 | | |
| Goshen | | 119.00 | | |
| Langdon | | 55.98 | | |
| Newport | | 90.00 | 90.00 | 93.60 |
| GRAFTON CO. | | | | |
| Bethlehem | | | | 70.00 |
| Bridgewater | 19.00 | 162.04 | 162.00 | 160.50 |
| Canaan | | 42.95 | 87.44 | 160.18 |
| Enfield | | 45.18 | | |
| Hanover | | | | 85.35 |
| Haverhill | 350.00 | | | |
| Landaff | | | 2.25 | 3.17 |
| Lebanon | | | | 232.00 |
| Lyman | 52.98 | | 42.98 | |
| Orford | 240.50 | 100.00 | 352.07 | 100.00 |
| Plymouth | | | | 25.87 |
| Waterville | 70.00 | | 2.00 | |
| Coos Co. | | | | |
| Clarksville | 9.32 | | | 9.32 |
| Dalton | 19.40 | | | |
| Dummer | | | | 21.00 |
| Milan | | | 26.00 | |
| Whitefield | 27.00 | 27.00 | 27.00 | 27.00 |
| | \$1,277.13 | \$1,278.51 | \$2,663.03 | \$2,765.99 |

Total for 1864-5, \$1,203.64 ; for 1871-2, \$2,508.52.

(The School Reports for those years.)

BIBLIOGRAPHICAL INDEX.

INTRODUCTORY NOTE.

When I began to search for materials for the foregoing account of the various uses to which the States put the surplus revenue, I was much embarrassed by not knowing where to turn for information. Very little help could be got from any one else, as the ground was almost untrodden.

Under these circumstances it seemed best to give an exact reference for every important statement, so that the work could easily be verified, and to furnish a bibliographical index to present as a whole all the sources from which I had drawn, for the double purpose of showing succeeding students where to look for original matter, and of enabling them instantly to tell whether they have discovered any facts to which I failed to gain access.

My chief source, it will be seen, has naturally been the acts of the Legislatures of the various States. I cannot hope, however, that I have exhausted this mine, for every one who has had experience with these documents knows how imperfectly they are indexed; yet as some five hundred volumes were to be consulted, it goes without saying that the indexes had to be relied upon. The difficulty was increased by the varying titles under which the matter appeared. In dealing with this subject one cannot feel at all sure that he has done his best with an index till he has looked for the titles: "Appropriations," "Deposits," "Education," "Money," "Public Deposits or Money," "Revenue," "Surplus," and "United States," unless he has previously learned the names used in the State.

In the case of the "American Almanac," "Niles' Register," and "Hazard's Register," no reliance was placed upon the indexes, but more than twenty vols. each of the *Almanac* and *Niles* were examined page by page.

A word about the arrangement of this index. The general arrangement is alphabetical. All general authorities, then, are in alphabetical order; all authorities, on the other hand, that have been used for one State only, are to be found in their alphabetical order under the name of that State, *following* the State documents, which have been arranged *chronologically*, except that, in general, *Acts* precede *Reports*. Finally, the general authorities used for any one State are summarized in italics at the end of the list under that State.

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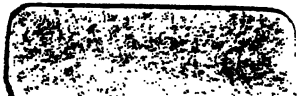
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